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Accounting Standard for Local Bodies (ASLB)
Volume-III

The Institute of Chartered Accountants of India
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Foreword

Local Bodies must have an efficient, effective and transparent accounting and financial reporting system in place to establish accountability and guarantee that the public money is being used in the public interest. The Government of India has taken several initiatives in this direction, e.g., issuance of National Municipal Accounts Manual and linking various schemes of Government (e.g., AMRUT, JNNURM) and recommendations of various finance commissions of funding/ grants with accounting reforms in Local Bodies. The diverse accounting practices are being followed in Local Bodies in India. Therefore, to harmonise the same, a need is there to formulate high quality financial reporting standards for Local Bodies.

ICAI, as a partner in Nation building, has also been making continuous efforts to prescribe and support in implementation of high-quality accrual based Accounting Framework for Local Bodies in India [i.e., Accounting Standards for Local Bodies (i.e., ASLBs) that are at par with the Internationally Accepted Accounting and Financial Reporting Standards by all levels of Governments (i.e., International Public Sector Accounting Standards - IPSASs)].

Till date 31 ASLBs have been issued by the Council of the ICAI (consisting of 30 Accrual based ASLBs and 1 Cash based ASLB to facilitate transition from cash to accrual basis of accounting). The purpose of ASLBs is to ensure that the financial reporting by local bodies reflects how efficiently and effectively Local Bodies have discharged their responsibilities in using public funds. ASLBs issued by the Council of the ICAI, are recommendatory in nature and will become mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned.

I am glad to note that Committee on Public & Government Financial Management (CP&GFM) has issued Compendium of Accounting Standards for Local Bodies (ASLBs) Volume III. This compendium contains four ASLBs issued by the Council of the ICAI subsequent to 2020 viz ASLB 35, ‘Consolidated Financial Statements’, ASLB 37, ‘Joint Arrangements’, ASLB 38, ‘Disclosure of Interests in Other Entities’ and ASLB 40, ‘Entity Combinations’.

I would like to congratulate CA. Kemisha Soni, Chairperson, CA. Prasanna Kumar D., Vice-Chairman, and all other members of CP&GFM for bringing out the Volume III of Compendium of ASLBs.

I firmly believe that the Compendium of ASLBs (Volume III), would be immensely useful to all stakeholders.

<table>
<tr><td>30th June, 2023
New Delhi</td><td align="right">CA. Aniket Sunil Talati
President, ICAI</td></tr>
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Preface

A well-functioning Local Government is a key to the delivery of services and infrastructure. There is a need for setting up a quality structure for robust and transparent accounting framework to establish proper accountability and provide decision makers with a comprehensive financial picture of Local Bodies. The Government of India (GoI) is taking several steps to improve financial reporting and management of Local Bodies in India. Recently, GoI accepted the recommendations of 15^{th} Central Finance Commission (2021 - 26) to make available annual accounts for the previous year and audited accounts for the year preceding previous year in the public domain online as an entry level condition for Local Bodies to qualify for any grant.

The ICAI as a premier accounting body, has undertaken various measures to improve the accounting of not only commercial entities but of Government as well, including Local Bodies in India. ICAI through its Committee on Public & Government Financial Management (CP&GFM) is formulating Accounting Standards for Local Bodies (ASLBs) to harmonise the diverse accounting practices that are being followed in Local Bodies in India. These ASLBs are principle-based accounting guidance for Local Bodies that prescribe valuation techniques and methods for measurement and disclosure requirements to present true financial position and performance of local bodies.

As of now, 31 ASLBs have been issued by the ICAI including one cash based ASLB to facilitate transition from cash to accrual accounting system and these ASLBs are recommendatory in nature and will become mandatory from the date specified in this regard by the State Government concerned. The State of Uttarakhand has notified State Municipal Accounts Manual including ASLBs therein. Apart from this, ASLB 2 (Cash Flow Statements), ASLB 5 (Borrowing Costs) and Guidance Note on "Accounting for Investments for Local Bodies" [that are conceptually similar to the National Municipal Accounts Manual, the prevailing accounting framework for Urban Local Bodies (ULBs)] have been mandated by the ICAI to comply with by Members of ICAI while Auditing the Financial Statements of ULBs w.e.f. April 1, 2022.

It gives us immense pleasure to present this Compendium of Accounting Standards for Local Bodies Volume III. The volume I of Compendium of Accounting Standards for Local Bodies was brought out in the year 2015 including 11 ASLBs including one Cash Based ASLB which was followed by release of Volume II of Compendium of Accounting Standards for Local Bodies in 2020 consisting of 16 ASLBs. This volume III of Compendium is being brought to complete the bouquet of ASLBs and consists of remaining four Standards.

- ASLB 35, '*Consolidated Financial Statement*',
- ASLB 37, '*Joint Arrangements*',
- ASLB 38, '*Disclosure of Interests in Other Entities*', and
- ASLB 40, '*Entity Combination*'.

We are very grateful to CA. Aniket S. Talati, President, ICAI and CA. Ranjeet Kumar Agrawal, Vice-President, ICAI for their constant guidance and supporting the endeavours of the Committee. We would place on record our sincere thanks to Council Colleagues, Co-opted Members and Special Invitees of the Committee for supporting in Committee's endeavours.

We are thankful to all the members of Mumbai based Study Group that was constituted under the convenorship of CA. Dheeraj Kumar Khandelwal, Former, Chairman, CP&GFM, who were involved in the formulation of these Standards. We are also thankful to all experts, various regulators, municipalities and other bodies, our members who had contributed in supporting the technical activities of the Institute and in providing invaluable inputs/suggestions in the process of formulation of these ASLBs.

We also appreciate the efforts put in by CA. S. N. Gupta, Joint Director and Head, Technical Directorate, CA. Namrata Khandelwal, Secretary, CP&GFM and CA. Nikita Gupta, Assistant Secretary, CP&GFM and other officials of the Secretariat who were involved in formulation of ASLBs and bringing out this publication.

We believe that the accounting guidance provided in this publication would be immensely helpful to stakeholders, users as well as all others concerned.

CA. Kemisha Soni — **CA. Prasanna Kumar D**

Chairperson — Vice-Chairperson

Committee on Public & Government Financial Management

Place : New Delhi

Date : 30th June, 2023

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Consolidated Financial Statements

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1].)*

The Accounting Standard for Local Bodies (ASLB) 35, *'Consolidated Financial Statements'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;

   (b) Defines the principle of control, and establishes control as the basis for consolidation;

[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies*', according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

(c) Sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity; and

(d) Sets out the accounting requirements for the preparation of consolidated financial statements.

(e) [Refer to Appendix C]

Scope

3. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the preparation and presentation of consolidated financial statements for the economic entity.***

3A. ***This Standard applies to all entities described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[3].***

Entity Combinations[4]

4. This Standard does not deal with the accounting requirements for entity combinations and their effect on consolidation, including goodwill arising on an entity combination (see ASLB 40, '*Entity Combinations*').

Presentation of Consolidated Financial Statements

5. ***An entity that is a controlling entity should present consolidated financial statements. This Standard applies to all entities, except that a controlling entity need not present consolidated financial statements if it meets the following conditions[5]:***

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

[4] An entity combination is the bringing together of separate operations into one entity. The entity combination may occur in form of amalgamation or acquisition. [Refer ASLB 40 for more details]

[5] Some of the concepts/terms used under exemptions such as equity instruments, trading in public market, etc., may not be relevant in context of local bodies but may be applicable to the entities controlled by a Local Body, hence retained.

(a) ***It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements; or***

(b) ***Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the counter market, including local and regional markets)[6]; or***

(c) ***It did not file, nor is it in the process of filing, its financial statements with a securities commission such as Securities Exchange Board of India (SEBI) or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or***

(d) ***Its ultimate or any intermediate controlling entity produces consolidated financial statements that are available for public use and comply with Accounting Standards for Local Bodies (ASLBs), in which controlled entities are consolidated in accordance with this Standard.***

6. This Standard does not apply to post-employment benefit plans or other long-term employee benefit plans to which ASLB 39, *'Employee Benefits'* applies.

7. [Refer to Appendix C]

8. A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of transport entity controlled by a Local Body. Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. For example, the disclosures required by ASLB 18, '*Segment Reporting',* help to explain the significance of different activities within the economic entity.

[6] Domestic stock exchange mentioned here implies the stock exchange declared as such by Securities Exchange Board of India (SEBI).

9. The exemption from preparing consolidated financial statements in paragraph 5 does not apply where the information needs of a controlled entity's users would not be met by the consolidated financial statements of its controlling entity. For example, consolidated financial statements of the controlling entity may not meet the information needs of users in respect of key sectors or activities of the controlled entity. In many cases, there are legislated financial reporting requirements intended to address the information needs of such users. For example, an entity (Local Body A) controls “A” Smart City Corporation Ltd. (incorporated under Companies Act, 2013). The consolidated financial statements prepared by the Local Body A would not meet the requirement of financial statements set in Companies Act, 2013 for “A” Smart City Corporation Ltd., therefore, the said exemption won’t apply.

10. An entity may be required (for example, by legislation, or by external users) to prepare combined financial statements[7] which are for a different economic entity than that required by this Standard. Although such financial statements fall outside the scope of this Standard and would not comply with the requirements in this Standard, an entity could use the guidance in this Standard in the preparation of such combined financial statements.

11. [Deleted]

12. [Deleted]

13. [Deleted]

Definitions

14. ***The following terms are used in this Standard with the meanings specified:***

<u>Benefits</u> are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or

[7] Combined Financial Statements are financial statements of a reporting entity that comprises two or more entities that are not all linked by a controlling entity-controlled entity relationship.

non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Consolidated financial statements are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity's and its controlled entities are presented as those of a single economic entity.

Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

A controlled entity is an entity that is controlled by another entity.

A controlling entity is an entity that controls one or more entities.

A decision-maker is an entity with decision-making rights that is either a principal or an agent for other parties.

An economic entity is a controlling entity and its controlled entities.

A non-controlling interest is the net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.

Power consists of existing rights that give the current ability to direct the relevant activities of another entity.

Protective rights are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

***Relevant activities*: For the purpose of this Standard, relevant activities are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.**

***Removal rights* are rights to deprive the decision maker of its decision-making authority.**

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards. The following terms are defined in either ASLB 36, 'Investments in Associates and Joint Ventures', ASLB 37, 'Joint Arrangements', or ASLB 38, 'Disclosure of Interests in Other Entities': associate, interest in another entity, joint venture and significant influence.

Binding Arrangement

15. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with contracts between the parties.

Economic Entity

16. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising of the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity and group. An economic entity may include entities with both social policy and commercial objectives. For example, a Local Body XYZ (controlling entity) controls an entity ABC (controlled entity) that provides healthcare services for a nominal charge (social policy), as well as another entity PQR (controlled entity) that provides transport services on a commercial basis (commercial objective). The group of entities comprising Local Body XYZ and the controlled entities, viz., ABC and PQR, is an economic entity.

17. The determination of the economic entity will need to be made having regard to the constitutional arrangements in particular the ways in which local government power is limited and allocated and how the local government system is set up and operates.

Control (see paragraphs AG2-AG87)

18. ***An entity, regardless of the nature of its involvement with another entity, should determine whether it is a controlling entity by assessing whether it controls the other entity.***

19. ***An entity controls another entity when it is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.***

20. ***Thus, an entity controls another entity if and only if the entity has all the following:***

    (a) Power over the other entity (see paragraphs 23-29);

    (b) Exposure, or rights, to variable benefits from its involvement with the other entity (see paragraphs 30-34); and

    (c) The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs 35-37).

21. ***An entity should consider all facts and circumstances when assessing whether it controls another entity. The entity should reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 20 (see paragraphs AG82- AG87).***

22. Two or more entities collectively control another entity when they must act together to direct the relevant activities. In such cases, because no single entity can direct the activities without the co-operation of the others, no single entity controls the other entity. Each entity should account for its interest in the other entity (that does not come under the purview of consolidation) in accordance with the

relevant ASLBs, such as ASLB 36 (Investment in Associates and Joint Ventures), ASLB 37 (Joint Arrangements), ASLB 38 (Disclosure of Interests in Other Entities), Guidance Note on Accounting for Investments or Guidance on *Financial Instruments.*

Power

23. An entity has power over another entity when the entity has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity. The right to direct the financial and operating policies of another entity indicates that an entity has the ability to direct the relevant activities of another entity and is frequently the way in which power is demonstrated in the entity. If the entity can dominate the nomination process for electing members of the other entity's governing body, in that case the entity has the ability to direct the relevant activities of that entity and therefore, control that entity. For example, a Local Body has rights to appoint members on the governing board of transport undertaking 'A'. In this case, Local Body is controlling transport undertaking 'A'.

24. Power arises from rights. In some cases, assessing power is straightforward, such as when power over another entity is obtained directly and solely from the voting rights granted by equity instruments such as shares and can be assessed by considering the voting rights from those shareholdings. However, the entities often obtain power over another entity from rights other than voting rights. They may also obtain power over another entity without having an equity instrument providing evidence of a financial investment. An entity may have rights conferred by binding arrangements. These rights may give an entity power to require the other entity to deploy assets or incur liabilities in a way that affects the nature or amount of benefits received by the first-mentioned entity. The assessment of whether such rights give rise to power over another entity may be complex and require more than one factor to be considered.

25. An entity can have power over another entity even if it does not have responsibility for the day-to-day operation of the other entity or the manner in which prescribed functions are performed by that other

entity. Legislation may give an entity (controlled) or its officers special powers to carry out their functions independently of the entity (controlling entity). But the existence of special powers to operate independently does not, of itself, preclude an entity having the ability to direct the operating and financial policies of another entity with special powers so as to obtain benefits.

26. The existence of rights over another entity does not necessarily give rise to power for the purposes of this Standard. An entity does not have power over another entity solely due to the existence of:

(a) Regulatory control (see paragraph AG12); or

(b) Economic dependence (see paragraphs AG41-AG42).

27. An entity with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the entity has been directing the relevant activities of the entity being assessed for control can help determine whether the entity has power, but such evidence is not, in itself, conclusive in determining whether the entity has power over the entity being assessed for control. In the case of an entity established with predetermined activities, the right to direct the relevant activities may have been exercised at the time that the entity was established.

28. If two or more entities each have existing rights that give them the unilateral ability to direct different relevant activities, the entity that has the current ability to direct the activities that most significantly affect the nature or amount of benefits from that entity has power over that other entity.

29. An entity can have power over an entity being assessed for control even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, However, an entity that holds only protective rights does not have power over another entity (see paragraphs AG29-AG31), and consequently does not control the other entity.

Benefits

30. An entity is exposed, or has rights, to variable benefits from its involvement with an entity being assessed for control when the

benefits that it seeks from its involvement have the potential to vary as a result of the other entity's performance. Entities become involved with other entities with the expectation of positive financial or non-financial benefits over time. However, in a particular reporting period, the actual impact of an entity's involvement with the entity being assessed for control can be only positive, only negative or a mix of both positive and negative.

31. The entity's benefits from its involvement with the entity being assessed for control can be only financial, only non-financial or both financial and non-financial. Financial benefits include returns on investment such as dividends or similar distributions and are sometimes referred to as "returns". Non-financial benefits include advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity. Non-financial benefits can occur when the activities of another entity are congruent with, (that is, they are in agreement with), the objectives of the entity and support the entity in achieving its objectives. For example, an entity may obtain benefits when another entity with congruent activities provides services that the first entity would have otherwise been obliged to provide. Congruent activities may be undertaken voluntarily or the entity may have the power to direct the other entity to undertake those activities. Non-financial benefits can also occur when two entities have complementary objectives (that is, the objectives of one entity add to, and make more complete, the objectives of the other entity).

32. The following examples illustrate financial benefits that an entity may receive from its involvement with another entity:

(a) Dividends, variable interest on debt securities, other distributions of economic benefits;

(b) Exposure to increases or decreases in the value of an investment in another entity;

(c) Exposure to loss from agreements to provide financial support, including financial support for major projects;

(d) Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets);

(e) Residual interests in the other entity's assets and liabilities on liquidation of that other entity; and

(f) Other exposures to variable benefits that are not available to other entities.

33. Examples of non-financial benefits include:

(a) The ability to benefit from the specialised knowledge of another entity;

(b) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives;

(c) Improved outcomes;

(d) More efficient delivery of outcomes;

(e) More efficient or effective production and delivery of goods and services;

(f) Having an asset and related services available earlier than otherwise would be the case; and

(g) Having a higher level of service quality than would otherwise be the case.

34. Although only one entity can control another entity, more than one party can share in the benefits of that other entity. For example, holders of non-controlling interests can share in the financial benefits such as surpluses or distributions from an entity or the non-financial benefits such as congruence of activities with desired outcomes.

Link between Power and Benefits

35. An entity controls another entity if the entity not only has power over the entity being assessed for control and exposure or rights to variable benefits from its involvement with the other entity, but also has the ability to use its power to affect the nature or amount of the benefits from its involvement with the entity being assessed for control.

36. The existence of congruent objectives alone is insufficient for an entity to conclude that it controls another entity. In order to have control the entity would also need to have the ability to use its power over the entity being assessed for control to direct that other entity to work with it to further its objectives.

37. ***An entity with decision-making rights should determine whether it is a principal or an agent. An entity should also determine whether another entity with decision-making rights is acting as an agent for the entity. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the other entity when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal.***

Accounting Requirements

38. ***A controlling entity should prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances***.

39. ***Consolidation of a controlled entity should begin from the date the entity obtains control of the other entity and cease when the entity loses control of the other entity.***

Consolidation Procedures

40. Consolidated financial statements:

(a) Combine like items of assets, liabilities, net assets/equity, revenue expenses and cash flows of the controlling entity with those of its controlled entities.

(b) Offset (eliminate) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity (ASLB 40 explains how to account for any related goodwill).

(c) Eliminate in full intra-economic entity assets, liabilities, net assets/ equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intra- economic entity losses may indicate an impairment that requires recognition in the consolidated financial statements.

Uniform Accounting Policies

41. If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that member's financial statements in preparing the consolidated financial statements to ensure conformity with the economic entity's accounting policies. If it is not practicable to do so, the fact is disclosed along with a brief description of the differences between the accounting policies.

Measurement

42. An entity includes the revenue and expenses of a controlled entity in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the controlled entity. Revenue and expenses of the controlled entity are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of income and expenditure after the acquisition date is based on the values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

43-45. [Refer to Appendix 1]

Reporting Dates[8]

46. ***The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements should be prepared as at the same***

[8] In India, on any date as the government may decide from time to time as per its accounting year, (at present) it is 31st March.

reporting date. When the end of the reporting period of the controlling entity is different from that of a controlled entity, the controlling entity either:

(a) Obtains, for consolidation purposes, additional financial information as of the same date as the financial statements of the controlling entity; or

(b) Uses the most recent financial statements of the controlled entity adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the reporting date of the financial statements of the controlled entity and that of the consolidated financial statements should not be more than three months and the length of the reporting periods and any difference between the reporting dates of the financial statements should be the same from period to period.

Non-Controlling Interests

47. ***A controlling entity should present non-controlling interests in the consolidated balance sheet within net assets/ equity, separately from the net assets/equity of the owners of the controlling entity.***

48. Changes in a controlling entity's interest in a controlled entity that do not result in the controlling entity losing control of the controlled entity are transactions with owners in their capacity as owners.

49. ***An entity should attribute the surplus or deficit and each gain or loss recognised directly in net assets/equity to the owners of the controlling entity and to the non-controlling interests.***

Changes in the Proportion held by Non-Controlling Interests

51. When the proportion of the net assets/equity held by non-controlling interests changes, an entity should adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the controlled entity. The entity should recognise

directly in net assets/equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the controlling entity.

Loss of Control

52. ***If a controlling entity loses control of a controlled entity, the controlling entity:***

    (a) Derecognises the assets and liabilities of the former controlled entity from the consolidated balance sheet;

    (b) Recognises any investment retained in the former controlled entity at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former controlled entity in accordance with relevant ASLBs. That retained interest is remeasured, as described in paragraphs 54(b)(iii) and 55. The remeasured value at the date that control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with Guidance on 'Financial Instruments' or the cost on initial recognition of an investment in an associate or joint venture; and

    (c) Recognises the gain or loss associated with the loss of control attributable to the former controlling interest, as specified in paragraphs 54–55.

53. ***A controlling entity might lose control of a controlled entity in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a controlling entity should consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the controlling entity should account for the multiple arrangements as a single transaction:***

    (a) They are entered into at the same time or in contemplation of each other.

(b) They form a single transaction designed to achieve an overall commercial effect.

(c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.

(d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of an investment is priced below- market and is compensated for by a subsequent disposal priced above market.

54. ***If a controlling entity loses control of a controlled entity, it should:***

(a) Derecognise:

(i) The assets (including any goodwill) and liabilities of the controlled entity at their carrying amounts at the date when control is lost; and

(ii) The carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost (including any gain or loss recognised directly in net assets/ equity attributable to them).

(b) Recognise:

(i) The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;

(ii) If the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the controlled entity to owners in their capacity as owners, that distribution; and

(iii) Any investment retained in the former controlled entity at its fair value at the date when control is lost.

(c) ***Transfer directly to accumulated surplus/deficit, if required by other ASLBs, the amounts recognised directly in net assets/equity in relation to the controlled entity on the basis described in paragraph 55.***

(d) ***Recognise any resulting difference as a gain or loss in surplus or deficit attributable to the controlling entity.***

Flowchart depicting summary of paragraphs 54 is as follows:

If a controlling entity loses control of a controlled entity, controlling entity, at the date when control is lost, should

Derecognise:

- carrying amount of assets and liabilities of former controlled entity
- carrying amount of any non-controlling interests in the former controlled entity (including any gain or loss recognised directly in net assets/equity attributable to them)

Recognise:

- fair value of the consideration received
- distribution of shares of the controlled entity to owners in their capacity as owners
- any investment retained in the former controlled entity at its fair value

Transfer directly to accumulated surplus/deficit, if required by other ASLBs, the amounts recognised directly in net assets/equity in relation to the controlled entity

Recognise any resulting difference as a gain or loss in surplus or deficit attributable to the controlling entity

55. ***If a controlling entity loses control of a controlled entity, the controlling entity should account for all amounts previously***

recognised directly in net assets/equity in relation to that controlled entity on the same basis as would be required if the controlling entity had directly disposed of the related assets or liabilities. If a revaluation surplus previously recognised directly in net assets/equity would be transferred directly to accumulated surplus/deficit on the disposal of the asset, the controlling entity should transfer the revaluation surplus directly to accumulated surplus/deficit when it loses control of the controlled entity.

55A. [Refer to Appendix 1]

56-64. [Refer to Appendix C]

Transitional Provisions

65. ***An entity should apply this Standard retrospectively, in accordance with ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors'.***

66. ***Notwithstanding the requirements of paragraph 33 of ASLB 3, when this Standard is first applied an entity need only present the quantitative information required by paragraph 33(f) of ASLB 3 for the annual period immediately preceding the date of initial application of this Standard (the "immediately preceding period"). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.***

67. For the purposes of this Standard, the date of initial application is the beginning of the annual reporting period for which this Standard is applied for the first time.

68. [Refer to Appendix 1]

69-73. [Refer to Appendix C]

74-81. **[Refer to Appendix 1]**

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 35.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 35, '*Consolidated Financial Statements'.*

Assessing Control

AG2. To determine whether it controls another entity an entity should assess whether it has all the following:

(a) Power over the other entity;

(b) Exposure, or rights, to variable benefits from its involvement with the other entity; and

(c) The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity.

AG3. Consideration of the following factors may assist in making that determination:

(a) The purpose and design of the other entity (see paragraphs AG5-AG8);

(b) What the relevant activities are and how decisions about those activities are made (see paragraphs AG13-AG15);

(c) Whether the rights of the entity give it the current ability to direct the relevant activities of the other entity (see paragraphs AG16-AG56);

(d) Whether the entity is exposed, or has rights, to variable benefits from its involvement with the other entity (see paragraph AG57-AG58); and

(e) Whether the entity has the ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs AG60-AG74).

AG4. When assessing whether it controls another entity, an entity should consider the nature of its relationship with other parties (see paragraphs AG75-AG77).

Purpose and Design of another Entity

AG5. An entity should consider the purpose and design of the entity being assessed for control in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who benefits from those activities.

AG6. When the purpose and design of the entity being assessed for control are considered, it may be clear that the entity being assessed for control is controlled by means of equity instruments that give the holder voting rights, such as ordinary shares. In this case, in the absence of any additional arrangements that alter decision-making, the assessment of control focuses on which party, if any, is able to exercise voting rights sufficient to determine the operating and financing policies of the entity being assessed for control (see paragraphs AG32-AG52). In the most straightforward case, the entity that holds a majority of those voting rights, in the absence of any other factors, controls the other entity.

AG7. To determine whether an entity controls another entity in more complex cases, it may be necessary to consider some or all of the other factors in paragraph AG3.

AG8. Voting rights may not be the dominant factor in deciding who controls the entity being assessed for control. If there are voting rights they may be limited in scope. The relevant activities of the entity being assessed for control may be directed by means of binding arrangements or provisions in founding documents such as articles of association or a constitution. In such cases, an entity's consideration of the purpose and design of the entity being assessed for control should also include consideration of the risks to which the other entity was designed to be exposed, the risks it was designed to pass on to the parties involved and whether the entity is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside.

Power

AG9. To have power over another entity, an entity must have existing rights that give it the current ability to direct the relevant activities. For the purpose of assessing power only substantive rights and rights that are not protective should be considered (see paragraphs AG25-AG31).

AG10. The determination about whether an entity has power depends on the relevant activities, the way decisions about the relevant activities are made and the rights of the entity and other entities in relation to the potentially controlled entity.

AG11. An entity normally will have power over an entity that it has established when the constituting document or enabling legislation specifies the operating and financing activities that are to be carried out by that entity. However, the impact of the constituting document or legislation is evaluated in the light of other prevailing circumstances, as all facts and circumstances need to be considered in assessing whether an entity has power over another entity. For example, a Local Body A establishes a Health Research Centre B which is affiliated to All India Institute of Medical Sciences, an autonomous and statutory body. Here, the Local Body A may not have power over Health Research Centre B though established by it as the power to direct the relevant activities belong to other entity that is not controlled by the Local Body A.

Regulatory Control

AG12. Regulatory control does not usually give rise to power over an entity for the purposes of this Standard. Local bodies may have powers to establish the regulatory framework within which entities operate, to involve in major decision-making activity of other entity and to execute those decisions in other entity, to impose conditions or sanctions on their operations and to enforce those conditions or sanctions. For example, local bodies may enact regulations to protect the health and safety of the citizens, restrict the sale or use of dangerous goods like acids. However, when regulation is so tight as to effectively dictate how the entity performs its operations, then it may be necessary to consider whether the purpose and design of the entity is such that it is controlled by the regulating entity.

Relevant Activities and Direction of Relevant Activities

AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

(a) Using assets and incurring liabilities to provide services to service recipients;

(b) Distributing funds to specified individuals or groups;

(c) Collecting revenue through non-exchange transactions;

(d) Selling and purchasing of goods or services;

(e) Managing physical assets;

(f) Managing financial assets during their life (including upon default);

(g) Selecting, acquiring or disposing of assets;

(h) Managing a portfolio of liabilities;

(i) Researching and developing new products or processes; and

(j) Determining a funding structure or obtaining funding.

AG14. Examples of decisions about relevant activities include but are not limited to:

(a) Establishing operating and capital decisions of an entity, including budgets; and

(b) Appointing and remunerating an entity's key management personnel or service providers and terminating their services or employment.

AG15. In some situations, activities both before and after a particular set of circumstances arises or event occurs, may be relevant activities. When two or more entities have the current ability to direct relevant activities and those activities occur at different times, those entities should determine which entity is able to direct the activities that most significantly affect those benefits consistently with the treatment of concurrent decision-making rights (see paragraph 28). The entities concerned should reconsider this assessment over time if relevant facts or circumstances change.

Rights that Give an Entity Power over another Entity

AG16. Power arises from rights. To have power over another entity, an entity must have existing rights that give the entity the current ability to direct the relevant activities of the other entity. The rights that may give an entity power can differ from case to case.

AG17. Examples of rights that, either individually or in combination, can give an entity power include but are not limited to:

(a) Rights to give policy directions to the governing body of another entity that give the holder the ability to direct the relevant activities of the other entity;

(b) Rights in the form of voting rights of another entity (see paragraphs AG32-AG52);

(c) Rights to appoint, reassign or remove members of another entity's key management personnel who have the ability to direct the relevant activities;

(d) Rights to appoint or remove another entity that directs the relevant activities;

(e) Rights to approve or veto operating and capital budgets relating to the relevant activities of another entity;

(f) Rights to direct the other entity to enter into, or veto any changes to, transactions for the benefit of the entity;

(g) Rights to veto key changes to the other entity, such as the sale of a major asset or of the other entity as a whole; and

(h) Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

AG18. In considering whether it has power, an entity will need to consider the binding arrangements that are in place and the mechanism(s) by which it has obtained power. Ways in which an entity may have obtained power, either individually or in combination with other arrangements, include:

(a) Legislative or executive authority;

(b) Administrative arrangements;

(c) Contractual arrangements;

(d) Founding documents (for example, articles of association); and

(e) Voting or similar rights.

AG19. To determine whether an entity has rights sufficient to give it power, the entity should also consider the purpose and design of the other entity (see paragraphs AG5-AG8) and the requirements in paragraphs AG53- AG56 together with paragraphs AG20-AG22.

AG20. In some circumstances it may be difficult to determine whether an entity's rights are sufficient to give it power over another entity. In such cases, to enable the assessment of power to be made, the entity should consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Consideration is given, but is not limited, to the following, which, when considered together with its rights and the indicators in paragraphs AG21 and AG22, may provide evidence that the entity's rights are sufficient to give it power over the other entity:

(a) The entity can, without having the contractual right to do so, appoint or approve the other entity's key management personnel who have the ability to direct the relevant activities;

(b) The entity can, without having the contractual right to do so, direct the other entity to enter into, or can veto any changes to, significant transactions for the benefit of the entity;

(c) The entity can dominate either the nominations process for electing members of the other entity's governing body or the obtaining of proxies from other holders of voting rights;

(d) The other entity's key management personnel are related parties of the entity (for example, the chief executive officer of the other entity and the chief executive officer of the entity are the same person); or

(e) The majority of the members of the other entity's governing body are related parties of the entity.

AG21. Sometimes there will be indications that the entity has a special relationship with the other entity, which suggests that the entity has more than a passive interest in the other entity. The existence of any individual indicator, or a particular combination of indicators, does not necessarily mean that the power criterion is met. However, if an entity has more than a passive interest in another entity this may indicate that the entity has other related rights sufficient to give it power or provide evidence of existing power over another entity. For example, the following suggests that the entity has more than a passive interest in the other entity and, in combination with other rights, may indicate power:

(a) The relationship between the entity and the other entity's operations is one of dependence, such as in the following situations:

(i) The entity funds a significant portion of the other entity's operations and the other entity depends on this.

(ii) The entity guarantees a significant portion of the other entity's obligations, and the other entity depends on this.

(iii) The entity provides critical services, technology, supplies or raw materials to the other entity, and the other entity depends on this.

(iv) The entity controls assets such as licenses or trademarks that are critical to the other entity's operations and the other entity depends on this.

(v) The entity provides key management personnel to the other entity (for example, when the entity's personnel have specialised knowledge of the other entity's operations) and the other entity depends on this.

(b) A significant portion of the other entity's activities either involve or are conducted on behalf of the entity.

(c) The entity's exposure, or rights, to benefits from its involvement with the other entity is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an entity is entitled, or exposed, to majority of the benefits of the other entity but holds lesser voting rights of the other entity.

AG22. The entities often have special relationships with other parties as a result of the indicators listed in paragraph AG21. The entities often fund the activities of other entities. Economic dependence is discussed in paragraphs AG41 to AG42.

AG23. The greater an entity's exposure, or rights, to variability of benefits from its involvement with another entity, the greater is the incentive for the entity to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of benefits is an indicator that the entity may have power. However, the extent of the entity's exposure does not, in itself, determine whether an entity has power over the other entity.

AG24. When the factors set out in paragraph AG20 and the indicators set out in paragraphs AG21-AG23 are considered together with an entity's rights, greater weight should be given to the evidence of power described in paragraph AG20.

Substantive Rights

AG25. An entity, in assessing whether it has power, considers only substantive rights relating to another entity (held by the entity and others). For a right to be substantive, the holder must have the practical ability to exercise that right.

AG26. Determining whether rights are substantive requires judgment, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:

(a) Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights. Examples of such barriers include but are not limited to:

(i) Financial penalties and incentives that would prevent (or deter) the holder from exercising its rights.

(ii) [Refer to Appendix 1]

(iii) Terms and conditions that make it unlikely that the rights would be exercised, for example, conditions that narrowly limit the timing of their exercise.

(iv) The absence of an explicit, reasonable mechanism in the founding documents of another entity or in applicable laws or regulations that would allow the holder to exercise its rights.

(v) The inability of the holder of the rights to obtain the information necessary to exercise its rights.

(vi) Operational barriers or incentives that would prevent (or deter) the holder from exercising its rights (e.g., the absence of other managers willing or able to provide specialised services or provide the services and take on other interests held by the incumbent manager)

(vii) Legal or regulatory requirements that limit the manner in which rights may be exercised or that prevent the holder from exercising its rights (e.g., where another entity has statutory powers which permit it to operate independently of the government).

(b) When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so. The lack of such a mechanism is an indicator that the rights may not be substantive. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive. However, a board of directors (or other governing body) whose members are independent of the decision maker may serve as a mechanism for numerous entities (or other parties) to act collectively in exercising their rights. Therefore, removal rights exercisable by an independent board of directors (or other governing body) are more likely to be substantive than if the same rights were exercisable individually by a large number of entities (or other parties).

(c) [Refer to Appendix 1]

AG27. To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made. Usually, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.

AG28. Substantive rights exercisable by other parties can prevent an entity from controlling the entity being assessed for control, to which those rights relate. Such substantive rights do not require the holders to have the ability to initiate decisions. As long as the rights are not merely protective (see paragraphs AG29-AG31), substantive rights held by other parties may prevent the entity from controlling the entity being assessed for control even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities.

Protective Rights

AG29. In evaluating whether rights give an entity power over another entity, the entity should assess whether its rights, and rights held by others, are protective rights. Protective rights relate to fundamental changes to the activities of another entity or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective (see paragraphs AG15 and AG55).

AG30. Because protective rights are designed to protect the interests of their holder without giving that party power over the entity to which those rights relate, an entity that holds only protective rights cannot have power or prevent another party from having power over the entity to which those rights relate (see paragraph 29).

AG31. Examples of protective rights include but are not limited to:

(a) A lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.

(b) The right of a party holding a non-controlling interest in an entity to approve capital expenditure greater than that required in the ordinary course of operations, or to approve the issue of equity or debt instruments.

(c) The right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.

(d) The right of a regulator to curtail or close the operations of entities that are not complying with regulations or other requirements. For example, a pollution control authority may be able to close down activities of an entity that breaches environmental regulations.

(e) The right to remove members of the governing body of another entity under certain restricted circumstances.

(f) [Refer to Appendix 1]

(g) The right of an entity providing resources to a charity to demand that, if the charity were to be liquidated, the net assets of the charity would be distributed to an organisation undertaking similar activities. (However, if the entity had the power to determine specifically to where the charity's net assets would be distributed upon liquidation, the entity would have substantive rights in relation to the charity).

Voting Rights

AG32. Where an entity has voting or similar rights in respect of another entity, an entity should consider whether those rights give it the current ability to direct the relevant activities of the other entity. An entity considers the requirements in this section (paragraphs AG33-AG52) in making that assessment.

Power with a Majority of the Voting Rights

AG33. An entity that holds majority of the voting rights of another entity has power in the following situations, unless paragraph AG34 or paragraph AG35 applies:

(a) The relevant activities are directed by a vote of the holder of the majority of the voting rights; or

(b) A majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights.

Majority of the Voting Rights but no Power

AG34. For an entity that holds a majority of the voting rights of another entity, to have power over that other entity, the entity's voting rights must be substantive, in accordance with paragraphs AG25-AG28, and must provide the entity with the current ability to direct the relevant activities, which often will be through determining operating and financing policies. If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the entity making the assessment of control, the entity making the assessment of control does not have power over the other entity.

AG35. An entity does not have power over another entity, even though the entity holds the majority of the voting rights in the other entity, when those voting rights are not substantive. For example, an entity that has majority of the voting rights in another entity cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator.

Power without a Majority of the Voting Rights

AG36. An entity can have power even if it holds less than a majority of the voting rights of another entity. An entity can have power with less than a majority of the voting rights of another entity, for example, through:

(a) The power to appoint or remove a majority of the members of the board of directors (or other governing body), and control of the other entity is by that board or by that body (see paragraph AG38);

(b) A binding arrangement between the entity and other vote holders (see paragraph AG39);

(c) Rights arising from other binding arrangements (see paragraph AG40);

(d) The entity's voting rights (see paragraphs AG37 and AG43-AG48);

(e) [Refer to Appendix 1]; or

(f) A combination of (a)-(e).

Special Voting Rights Attaching to Ownership Interests (Golden Shares)

AG37. An entity may have the right of decisive vote, thus to veto all other voting rights of another entity. This type of right is sometimes referred to as a "golden share". Such special voting rights may give rise to power. Usually these rights are documented in the founding documents of the other entity (such as articles of association), and are designed to restrict the level of voting or other rights that may be held by certain parties. They may also give an entity veto powers over any major change in the other entity, such as the sale of a major asset or the sale of the other entity as a whole.

Control of the Board or Other Governing Body

AG38. An entity may have the power to appoint or remove a majority of the members of the board of directors (or other governing body) as a result of binding arrangements (including existing legislation, executive authority, regulation, contractual, or other arrangements).

Binding Arrangement with Other Vote Holders

AG39. A binding arrangement between an entity and other vote holders can give the entity the right to exercise voting rights sufficient to give the entity power, even if the entity does not have voting rights sufficient to give it power without the binding arrangement. However, a binding arrangement might ensure that the entity can direct enough other vote holders on how to vote to enable the entity to make decisions about the relevant activities.

Rights from Other Binding Arrangements

AG40. Other decision-making rights, in combination with voting rights, can give an entity the current ability to direct the relevant activities. For example, the rights specified in a binding arrangement in combination with voting rights may give an entity the current ability to direct the operating or financing policies or other key activities of another entity that significantly affect the benefits received by the entity. However, an entity would not control another entity if that other entity were able to determine its policy or program to a significant extent, (for example, by failing to comply with the binding arrangement and accepting the consequences, or by changing its constitution or dissolving itself).

Economic Dependence

AG41. Economic dependence, alone, does not give rise to power over an entity for the purposes of this Standard. Economic dependence may occur when:

(a) An entity has a single major client and the loss of that client could affect the existence of the entity's operations; or

(b) An entity's activities are predominantly funded by grants and donations and it receives the majority of its funding from a single entity.

AG42. An entity may be able to influence the financial and operating policies of another entity that is dependent on it for funding. However, a combination of factors will need to be considered to determine whether the economic dependence is such that the economically dependent entity no longer has the ultimate power to govern its own financial or operating policies. If an economically dependent entity retains discretion as to whether it will take funding from an entity, or do operations with an entity, the economically dependent entity still has the ultimate power to govern its own financial or operating policies. For example, a private aided school that accepts funding from a Local Body but whose governing body has retained discretion with respect to accepting funds or the manner in which those funds are to be used, would still have the ultimate power to govern its own financial or operating policies. This may be so even if Local Body grants provided to such an entity requires it to comply with specified conditions. Although the entity might receive Local Body grants for the construction of capital assets and operating costs subject to specified service standards or restrictions on user fees, its governing bodies may have ultimate discretion about how assets are used; the entity would therefore control its financial and operating policies. It is also important to distinguish between the operations of an entity and an entity itself. The loss of a major client might affect the viability of the operations of an entity but not the existence of the entity itself.

The Entity's Voting Rights

AG43. An entity with less than a majority of the voting rights has rights that are sufficient to give it power when the entity has the practical ability to direct the relevant activities unilaterally.

AG44. When assessing whether an entity's voting rights are sufficient to give it power, an entity considers all facts and circumstances, including:

(a) The size of the entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:

(i) The more voting rights an entity holds, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(ii) The more voting rights an entity holds relative to other vote holders, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(iii) The more parties that would need to act together to outvote the entity, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(b) [Refer to Appendix 1];

(c) Rights arising from other binding arrangements (see paragraph AG40); and

(d) Any additional facts and circumstances that indicate the entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

AG45. When the direction of relevant activities is determined by majority vote and an entity holds significantly more voting rights than any other vote holder or organised group of vote holders, and the other shareholdings are widely dispersed, it may be clear, after considering the factors listed in paragraph AG44(a)-(c) alone, that the entity has power over the other entity.

AG46. In other situations, it may be clear after considering the factors listed in paragraph AG44 (a)-(c) alone that an entity does not have power.

AG47. However, the factors listed in paragraph AG44 (a)-(c) alone may not be conclusive. If an entity, having considered those factors, is unclear whether it has power, it should consider additional facts and circumstances, such as whether holder of majority of the voting rights is passive in nature as demonstrated by voting patterns at previous shareholders' meetings. This includes the assessment of the factors set out in paragraph AG20 and the indicators in paragraphs AG21-AG23. The fewer voting rights the entity holds, and the fewer parties that would need to act together to outvote the entity, the more reliance would be placed on the additional facts and circumstances to assess whether the entity's rights are sufficient to give it power. When the facts and circumstances in paragraphs AG20-AG23 are considered together with the entity's rights, greater weight should be given to the evidence of power in paragraph AG20 than to the indicators of power in paragraphs AG21-AG23.

AG48. If it is not clear, having considered the factors listed in paragraph AG44 (a) - (d), that the entity has power, the entity does not control the other entity.

AG49-52. [Refer to Appendix 1]

Power when Voting or Similar Rights do not have a Significant Effect on Benefits

AG53. In assessing the purpose and design of another entity (see paragraphs AG5-AG8), an entity should consider the involvement and decisions made at the inception of the other entity as part of its design and evaluate whether the transaction terms and features of the involvement provide the entity with rights that are sufficient to give it power. Being involved in the design of another entity alone is not sufficient to give an entity control of that other entity. However, involvement in the design of the other entity may indicate that the entity had the opportunity to obtain rights that are sufficient to give it power over the other entity and hence the ability to determine the purpose and design of an entity may give rise to power. In the case of an entity established with most (or all) of its relevant activities predetermined at inception, having the ability to determine the purpose and design of an entity may be more relevant to the control assessment than any on-going decision- making rights.

AG54. In addition, an entity should consider rights arising from binding arrangements such as liquidation rights and rights arising from legislative or executive authority established at the inception of the other entity. When binding arrangements involve activities that are closely related to the other entity, then these activities are, in substance, an integral part of the other entity's overall activities, even though they may occur outside the legal boundaries of the other entity. Therefore, explicit or implicit decision-making rights embedded in binding arrangements that are closely related to the other entity need to be considered as relevant activities when determining power over the other entity.

AG55. For some other entities, relevant activities occur only when particular circumstances arise or events occur. The other entity may be designed so that the direction of its activities and the benefits from those activities are predetermined unless and until those particular circumstances arise or events occur. In this case, only the decisions about the other entity's activities when those circumstances or events occur can significantly affect its benefits and thus be relevant activities. The circumstances or events need not have occurred for an entity with the ability to make those decisions to have power. The fact that the right to make decisions is contingent on circumstances arising or an event occurring does not, in itself, make those rights protective.

AG56. An entity may have an explicit or implicit commitment to ensure that another entity continues to operate as designed. Such a commitment may increase the entity's exposure to variability of benefits and thus increase the incentive for the entity to obtain rights sufficient to give it power. Therefore, a commitment to ensure that another entity operates as designed may be an indicator that the entity has power, but does not, by itself, give an entity power, nor does it prevent another party from having power.

Exposure, or Rights, to Variable Benefits from another Entity

AG57. When assessing whether an entity has control of another entity, the entity determines whether it is exposed, or has rights, to variable benefits from its involvement with the other entity.

AG58. Variable benefits are benefits that are not fixed and have the potential to vary as a result of the performance of another entity. Variable benefits can be only positive, only negative or both positive and negative (see paragraph 30). An entity assesses whether benefits from another entity are variable and how variable those benefits are on the basis of the substance of the arrangement and regardless of the legal form of the benefits. For example:

(a) In the context of non-financial benefits an entity may receive benefits as a result of the activities of another entity furthering its objectives. The benefits may be variable benefits for the purpose of this Standard because they may expose the entity to the performance risk of the other entity. If the other entity were unable to perform those activities then the entity might incur additional costs, either from undertaking the activities itself or by providing additional funds or other forms of assistance to enable the other entity to continue providing those activities.

(b) In the context of financial benefits an entity can hold a bond with fixed interest payments. The fixed interest payments are variable benefits for the purpose of this Standard because they are subject to default risk and they expose the entity to the credit risk of the issuer of the bond. The amount of variability (i.e., how variable those benefits are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing another entity's assets are variable benefits because they expose the entity to the performance risk of the other entity. The amount of variability depends on the other entity's ability to generate sufficient revenue to pay the fee.

AG59. A liquidator would not normally have rights to variable benefits from its involvement with the entity being liquidated.

Link between Power and Benefits

Delegated Power

AG60. It is common for the entities to be responsible for carrying out government policy. In some cases, they may have the authority to act in their own right, in other cases they may act as an agent for Government or Ministry or another entity. For example:

(a) A Local Body, which is authorised by a Ministry to act on the Ministry's behalf, might act solely as an agent of the responsible Ministry in relation to another entity. In such cases the Local Body would not control the other entity and would not consolidate it.

(b) A Local Body’s may operate under a delegation of power from a Ministry. The Local Body uses its own discretion in making decisions and taking actions and is not subject to direction from the Ministry. In such cases the Local Body is acting in its own right and would need to apply the other requirements of this Standard to determine whether it controlled another entity. The scope of the Local Body's decision-making authority over another entity would be a significant factor in distinguishing whether it is acting as an agent or as a principal.

(c) An entity may establish a trust to carry out specified activities and appoints the trustee. The trustee is responsible for making decisions about the financing and operating activities of the trust in accordance with the trust deed. If the entity can replace the trustee at its discretion, the entity would need to assess whether it controls the trust given that, for example, it would be exposed, or have rights, to variable benefits in terms of the extent to which its objectives are achieved or furthered through the activities of the trust.

AG61. An entity may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls another entity, the entity should treat the decision-making rights delegated to its agent as held by the entity directly. In situations where there is more than one principal, each of the principals should assess whether it has power over the other entity by considering the requirements in paragraphs AG5- AG56. Paragraphs AG62-AG74 provide guidance on determining whether a decision maker is an agent or a principal.

AG62. A decision maker should consider the overall relationship between itself, the other entity being managed (and assessed for control) and other parties involved with that entity. In particular, a decision maker should consider all the factors below, in determining whether it is an agent:

(a) The scope of its decision-making authority over the other entity (paragraphs AG64 and AG65);

(b) The rights held by other parties (paragraphs AG66-AG69);

(c) The remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs AG70-AG72); and

(d) The decision maker's exposure to variability of benefits from other interests that it holds in the other entity (paragraphs AG73 and AG74).

Different weightings should be applied to each of the factors on the basis of particular facts and circumstances.

AG63. Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph AG62 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph AG67).

The Scope of the Decision-Making Authority

AG64. The scope of a decision maker's decision-making authority is evaluated by considering:

(a) The activities that are permitted according to the decision-making agreement(s) and specified by law, and

(b) The discretion that the decision maker has when making decisions about those activities.

AG65. A decision maker should consider the purpose and design of the other entity, the risks to which the other entity was designed to be exposed, the risks it was designed to pass on to the parties involved and the level of involvement the decision maker had in the design of another entity. For example, if a decision maker is significantly involved in the design of the other entity (including in determining the scope of decision-making authority), that involvement may indicate that the decision maker had the opportunity and incentive to obtain rights that result in the decision maker having the ability to direct the relevant activities.

Rights held by Other Parties

AG66. Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of another entity. Substantive removal or other rights may indicate that the decision maker is an agent.

AG67. When a single party holds substantive removal rights and can remove the decision maker without cause, this, in isolation, is sufficient to conclude that the decision maker is an agent. If more than one party holds such rights (and no individual party can remove the decision maker without the agreement of other parties) those rights are not, in isolation, conclusive in determining that a decision maker acts primarily on behalf and for the benefit of others. In addition, the greater the number of parties required to act together to exercise rights to remove a decision maker and the greater the magnitude of, and variability associated with, the decision maker's other economic interests (i.e., remuneration and other interests), the less the weighting that shall be placed on this factor.

AG68. Substantive rights held by other parties that restrict a decision maker's discretion shall be considered in a similar manner to removal rights when evaluating whether the decision maker is an agent. For example, a decision maker that is required to obtain approval from a small number of other parties for its actions is generally an agent. (See paragraphs AG25-AG28 for additional guidance on rights and whether they are substantive).

AG69. Consideration of the rights held by other parties shall include an assessment of any rights exercisable by another entity's board of directors (or other governing body) and their effect on the decision-making authority (see paragraph AG26 (b)).

Remuneration

AG70. The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the benefits expected from the activities of the other entity, the more likely the decision maker is a principal.

AG71. In determining whether it is a principal or an agent the decision maker should also consider whether the remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.

AG72. A decision maker cannot be an agent unless the conditions set out in paragraph AG74(a) and (b) are present However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent.

Exposure to Variability of Benefits from Other Interests

AG73. A decision maker that holds other interests in another entity (e.g., investments in the other entity or provides guarantees with respect to the performance of the other entity), should consider its exposure to variability of benefits from those interests in assessing whether it is an agent. Holding other interests in another entity indicates that the decision maker may be a principal.

AG74. In evaluating its exposure to variability of benefits from other interests in the other entity a decision maker should consider the following:

(a) The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal.

(b) Whether its exposure to variability of benefits is different from that of the other entities that receive benefits from the entity being assessed for control and, if so, whether this might influence its actions. For example, this might be the case when a decision maker holds subordinated interests in, or provides other forms of credit enhancement to, another entity.

The decision maker should evaluate its exposure relative to the total variability of benefits of the other entity. This evaluation is made primarily on the basis of benefits expected from the activities of the other entity but should not ignore the decision maker's maximum exposure to variability of benefits of the other entity through other interests that the decision maker holds.

Relationship with Other Parties

AG75. When assessing control, an entity should consider the nature of its relationship with other parties and whether those other parties are acting on the entity's behalf (i.e., they are "de facto agents"). The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the entity.

AG76. Such a relationship need not involve a binding arrangement. Such relationships could also arise from legislative or executive authority that does not meet the definition of a binding arrangement. A party is a de facto agent when the entity has, or those that direct the activities of the entity have, the ability to direct that party to act on the entity's behalf in these circumstances, the entity should consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable benefits through the de facto agent together-with its own when assessing control of another entity.

AG77. The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the entity:

(a) The entity's related parties.

(b) A party that received its interest in the other entity as a contribution or loan from the entity making the assessment of control.

(c) A party that has agreed not to sell, transfer or encumber its interests in the other entity without the entity's prior approval (except for situations in which the entity and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties).

(d) A party that cannot finance its operations without subordinated financial support from the entity.

(e) Another entity for which the majority of the members of its governing body or for which its key management personnel are the same as those of the entity.

(f) A party that has a close operational relationship with the entity, such as the relationship between a professional service provider and one of its significant clients.

Control of Specified Assets

AG78. An entity should consider whether it treats a portion of another entity as a deemed separate entity and, if so, whether it controls the deemed separate entity.

AG79. An entity should treat a portion of another entity as a deemed separate entity if and only if the following condition is satisfied:

Specified assets of the other entity (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the other entity. Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the benefits from the specified assets can be used by the remaining portion of the other entity and none of the liabilities of the deemed separate entity are payable from the assets of the remainder of the other entity. Thus, in substance, all the assets, liabilities and equity instruments of that deemed separate entity are ring-fenced from the overall other entity. Such a deemed separate entity is often called a "silo".

AG80. When the condition in paragraph AG79 is satisfied, an entity should identify the activities that significantly affect the benefits of the deemed separate entity and how those activities are directed in order to assess whether it has power over that portion of the other entity. When assessing control of the deemed separate entity, the entity should also consider whether it has exposure or rights to variable benefits from its involvement with that deemed separate entity and the ability to use its power over that portion of the other entity to affect the amount of the benefits from that entity.

AG81. If the entity controls the deemed separate entity, the entity should consolidate that portion of the other entity. In that case, other parties exclude that portion of the other entity when assessing control of, and in consolidating, the other entity.

Continuous Assessment

AG82. An entity should reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 20.

AG83. If there is a change in how power over another entity can be exercised, that change must be reflected in how an entity assesses its power over another entity. For example, changes to decision-making rights can mean that the relevant activities are no longer directed through voting rights, but instead other agreements, such as contracts, give another party or parties the current ability to direct the relevant activities.

AG84. An event can cause an entity to gain or lose power over another entity without the entity being involved in that event. For example, an entity can gain power over another entity because decision-making rights held by another party or parties that previously prevented the entity from controlling another entity have lapsed.

AG85. An entity also considers changes affecting its exposure, or rights, to variable benefits from its involvement with another entity. For example, an entity that has power over another entity can lose control of that other entity if the entity ceases to be entitled or have the ability to receive benefits or to be exposed to obligations, because the entity would fail to satisfy paragraph 20(b) (e.g., if a contract to receive performance-related fees is terminated).

AG86. An entity should consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the entity and other parties can mean that an entity no longer acts as an agent, even though it has previously acted as an agent, and vice versa. For example, if changes to the rights of the entity, or of other parties, occur, the entity should reconsider its status as a principal or an agent.

AG87. An entity's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g., a change in the other entity's benefits driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 20 or changes the overall relationship between a principal and an agent.

AG88-106. [Refer to Appendix C]

Appendix B

[Refer to Appendix 1]

Appendix C

Guidance for Investment Entities[9]

This appendix is not an integral part of the ASLB 35. It defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

C1. ***A controlling entity that is an investment entity should not present consolidated financial statements if it is required, in accordance with paragraph C3 of this Appendix, to measure all of its controlled entities at fair value through surplus or deficit.***

A controlling entity (that is not an investment entity) also need not present consolidated financial statements if its controlled entity is an investment entity that measure all of its investments at fair value through surplus or deficit in accordance with paragraph C3 of this Appendix.

Definition

C2. ***The Following term is used in this Appendix with the meanings specified:***

<u>An investment entity</u> is an entity that:

(a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

(b) Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and

(c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.

[9] The Concept of Investment entity may not be relevant for local bodies in current scenario. Therefore, all the provisions pertaining to Investment entity have been moved to this Appendix.

Investment Entities: Fair Value Requirement

C3. ***Except as described in paragraph C4, an investment entity should not consolidate its controlled entities or apply ASLB 40 when it obtains control of another entity. Instead, an investment entity should measure an investment in a controlled entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments'[10].***

C4. ***Notwithstanding the requirement in paragraphC3, if an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraphs C27-C29), it should consolidate that controlled entity in accordance with paragraphs 38-55 of this Standard and apply the requirements of ASLB 40 to the acquisition of any such controlled entity.***

C5. ***A controlling entity of an investment entity that is not itself an investment entity should present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments' and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with paragraphs 38-55 of this Standard.***

Determining Whether an Entity is an Investment Entity

C6. ***An entity should consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs C18-C35 describe aspects of the definition of an investment entity in more detail. If facts and circumstances indicate that there are changes to one or more of the three elements that make up the definition of an investment entity, a controlling entity should reassess whether it is an investment entity.***

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[10] The guidance with regard to financial instruments may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

C7. ***A controlling entity that either ceases to be an investment entity or becomes an investment entity should account for the change in its status prospectively from the date at which the change in status occurred (see paragraphs C10-C11 of this Appendix).***

Judgments and Assumptions

C8. ***An investment entity should disclose the information required by ASLB 38 about significant judgments and assumptions made in determining that it is an investment entity unless it has all of the following characteristics:***

(a) It has obtained funds from more than one investor (see paragraphs C18-C19);

(b) It has ownership interests in the form of equity or similar interests (see paragraphs C20-C21); and

(c) It has more than one investment (see paragraphs C25-C26).

C9. The absence of any of these characteristics does not necessarily disqualify an entity from being classified as an investment entity. However, the absence of any of these characteristics means that an entity is required to disclose information about the significant judgments and assumptions made in determining that it is an investment entity.

Accounting for a Change in Investment Entity Status

C10. ***When an entity ceases to be an investment entity, it should apply ASLB 40 to any controlled entity that was previously measured at fair value through surplus or deficit in accordance with paragraph C3 of this Appendix. The date of the change of status should be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date should represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All controlled entities should be consolidated in accordance with paragraphs 38-51 of the Standard from the date of change of status.***

C11. ***When an entity becomes an investment entity, it should cease to consolidate its controlled entities at the date of the change in status, except for any controlled entity that should continue to be consolidated in accordance with paragraph C4 of this Appendix. The investment entity should apply the requirements of paragraphs 52 and 53 of the Standard to those controlled entities that it ceases to consolidate as though the investment entity had lost control of those controlled entities at that date.***

Transitional Provisions

C12. ***At the date of initial application, an entity should assess whether it is an investment entity on the basis of the facts and circumstances that exist at that date. If, at the date of initial application, an entity concludes that it is an investment entity, it should apply the requirements of paragraphs C13-C16 of this Appendix.***

C13. ***Except for any controlled entity that is consolidated in accordance with paragraph C4 of this Appendix, an investment entity should measure its investment in each controlled entity at fair value through surplus or deficit as if the requirements of this Standard had always been effective. The investment entity should retrospectively adjust both the annual period that immediately precedes the date of initial application and net assets/equity at the beginning of the immediately preceding period for any difference between:***

(a) The previous carrying amount of the controlled entity; and

(b) The fair value of the investment entity's investment in the controlled entity.

The cumulative amount of any fair value adjustments previously recognised directly in net assets/equity should be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.

C14. ***An investment entity should use the fair value amounts that were previously reported to investors or to management.***

C15. ***If measuring an investment in a controlled entity in accordance with paragraph C13 of this Appendix is impracticable (as defined in ASLB 3), an investment entity should apply the requirements of this Standard at the beginning of the earliest period for which application of paragraph C13 of this Appendix is practicable, which may be the current period. The investor should retrospectively adjust the annual period that immediately precedes the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. If this is the case, the adjustment to net assets/equity should be recognised at the beginning of the current period.***

C16. If an investment entity has disposed of, or has lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that controlled entity.

Application Guidance on Investment Entities

Determining Whether an Entity is an Investment Entity

C17. An entity should consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs C18-C35 describe aspects of the definition of an investment entity in more detail.

Number of Investors

C18. The definition of an investment entity requires that the entity have one or more investors. An investment entity may have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. Having several investors would make it less likely that the entity, or other members of the economic entity containing the entity, would obtain benefits other than capital appreciation or investment revenue.

C19. However, in the entities it is also common for an investment entity to be formed by, or for, a single controlling entity that represents or supports the interests of a wider group of investors (e.g., a pension fund or trust).

Ownership Interests

C20. An investment entity is typically, but is not required to be, a separate legal entity. The investors in an investment entity will often, but not always, have ownership interests in the form of equity or similar interests (e.g., partnership interests), to which proportionate shares of the net assets of the investment entity are attributed. The definition of an investment entity does not specify that all investors must have the same rights. Having different classes of investors, some of which have rights only to a specific investment or groups of investments or which have different proportionate shares of the net assets, does not preclude an entity from being an investment entity.

C21. The definition of an investment entity does not specify that the investors must have an ownership interest that meets the definition of net assets/equity in accordance with other applicable ASLBs. An entity that has significant ownership interests in the form of debt that does not meet the definition of net assets/equity may still qualify as an investment enity, provided that the debt holders are exposed to variable returns from changes in the fair value of the entity's net assets.

Purpose

C22. The definition of an investment entity requires that the purpose of the entity is to invest solely for returns from capital appreciation, investment revenue (such as dividends or similar distributions, interest or rental revenue), or both. Documents that indicate what the entity's investment objectives are, such as the entity's mandate, constitution, offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity's purpose. Further evidence may include the manner in which the entity presents itself to other parties, for example, an entity may present its objective as providing medium-term investment for capital appreciation.

C23. An entity that has additional objectives that are inconsistent with the purpose of an investment entity would not meet the definition of an investment entity. Examples of when this may occur are as follows:

(a) An investor whose objective is to jointly develop, produce or market products with its investees. The entity will earn returns from the development, production or marketing activity as well as from its investments;

(b) An investor whose objectives require it to be aligned with the economic, social or environmental policies of another entity. For example, if an entity is required to align its investment policies with other objectives such as owning certain operations or improving employment outcomes in an area; and

(c) An investor whose individual investment decisions have to be ratified or approved by a controlling entity or which is required to follow the direction of a controlling entity. Such ratifications, approvals or decisions are likely to be inconsistent with the purpose of an investment entity.

C24. An entity's purpose may change over time. In assessing whether it continues to meet the definition of an investment entity, an entity would need to have regard to any changes in the environment in which it operates and the impact of such changes on its investment strategy.

Demonstrating Purpose through Holding More than One Investment

C25. An investment entity may have a number of ways in which it can demonstrate that its purpose is to invest funds for capital appreciation, investment revenue or both. One way is by holding several investments to diversify its risk and maximise its returns. An entity may hold a portfolio of investments directly or indirectly, for example by holding a single investment in another investment entity that itself holds several investments.

C26. There may be times when the entity holds a single investment. However, holding a single investment does not necessarily prevent an entity from meeting the definition of an investment entity. For example, an investment entity may hold only a single investment when the entity:

(a) Is in its start-up period and has not yet identified suitable investments and, therefore, has not yet executed its investment plan to acquire several investments;

(b) Has not yet made other investments to replace those it has disposed of;

(c) Is established to pool investors' funds to invest in a single investment when that investment is unobtainable by individual investors (e.g., when the required minimum investment is too high for an individual investor); or

(d) Is in the process of being disestablished.

Investment-Related Services and Activities

C27. An investment entity may provide investment-related services (e.g., investment advisory services, investment management, investment support and administrative services), either directly or through a controlled entity, to third parties as well as to its controlling entity or other investors, even if those activities are substantial to the entity, subject to the entity continuing to meet the definition of an investment entity.

C28. An investment entity may also participate in the following investment-related activities, either directly or through a controlled entity, if these activities are undertaken to maximise the investment return (capital appreciation or investment revenue) from its investees and do not represent a separate substantial activity or a separate substantial source of revenue to the investment entity:

(a) Providing management services and strategic advice to an investee; and

(b) Providing financial support to an investee, such as a loan, capital commitment or guarantee.

C29. If an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing investment-related services or activities that relate to the investment entity's investment activities, such as those described in paragraphs C27-C28, to the entity or other parties, it should consolidate that controlled entity in accordance with paragraph C4 of this Appendix. If the controlled entity that provides the investment-related services or activities is itself an investment entity, the controlling investment entity should measure that controlled entity at fair value through surplus or deficit in accordance with paragraph C3 of this Appendix.

Exit Strategies

C30. An entity's investment plans also provide evidence of its purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity should have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments. An investment entity should also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but should identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non- performance, are not considered exit strategies for the purpose of this assessment.

C31. Exit strategies can vary by type of investment. For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of an operation, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee). For equity investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market. For real estate investments, an example of an exit strategy includes the sale of the real estate through specialised property dealers or the open market.

C32. An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar operations reasons. In this case, the investment entity investor need not have an exit strategy for that investment, provided that the investment entity investee has appropriate exit strategies for its investments.

Fair Value Measurement

C33. An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its controlled entities. In order to demonstrate that it meets this element of the definition, an investment entity:

(a) Provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is required or permitted in accordance with ASLBs; and

(b) Reports fair value information internally to the entity's key management personnel (as defined in ASLB 20, '*Related Party Disclosures'*), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

C34. In order to meet the requirement in C28 (a), an investment entity would:

(a) Elect to account for any investment property using the fair value model in ASLB 16, '*Investment Property'*;

(b) [Refer to Appendix 1]; and

(c) Measure its financial assets at fair value as per Guidance on '*Financial Instruments*'.

C35. An investment entity may have some non-investment assets, such as a head office property and related equipment, and may also have financial liabilities. The fair value measurement element of the definition of an investment entity applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

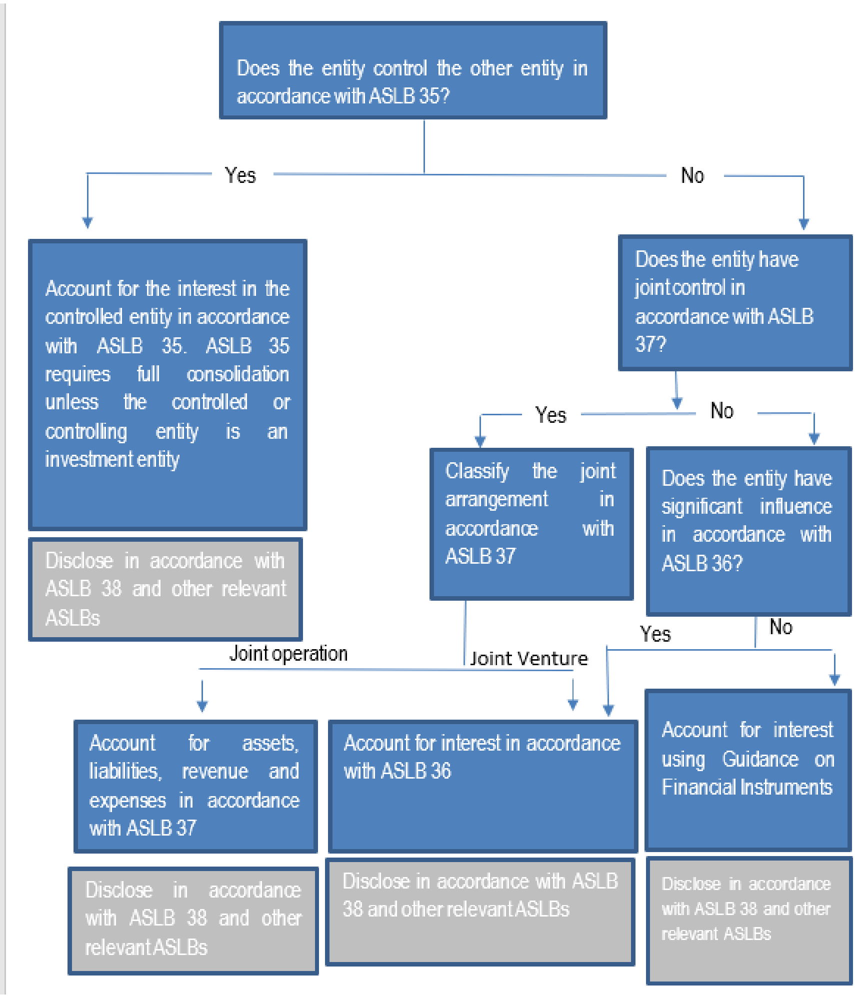
Implementation Guidance

This guidance accompanies, but is not part of, ASLB 35.

Nature of Relationship with Another Entity

IG1. The diagram below summarises the accounting for various types of involvement with another entity.

Flowchart 1: Forms of Involvement with Other Parties



Illustrative Examples

These examples accompany, but are not part of, ASLB 35.

IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 35.

Power (paragraphs AG9–AG55 & paragraph C3 of Appendix C)

IE2. The following example illustrates an assessment of whether power exists for the purposes of this Standard.

Example 1

A Local Body 'A' partially funds the activities of a Local Body 'B'. Some of this funding is required to be spent on specified activities. The Local Body 'B' has a council that is elected every four years by the citizens. The council decides how to use the Local Body B's resources for the benefit of the citizens. The activities of the Local Body 'B' are diverse and include library services, provision of leisure facilities, management of refuse and wastewater, and enforcement of building and health and safety regulations. These activities are the relevant activities of the Local Body 'B'. Many of these activities also coincide with the interests of the Local Body 'A'.

Despite its partial funding of the Local Body B's activities, the Local Body 'A' does not have the power to direct the relevant activities of the Local Body 'B'. The rights of the Local Body 'B' over the relevant activities preclude the Local Body 'A' from having control.

Regulatory Control (paragraph AG12)

IE3. The following examples illustrate various forms of regulatory control. None of these forms of regulatory control give rise to power over the relevant activities for the purposes of this Standard. However, those examples do not rule out that there may be instances where power over the relevant activities for the purposes of this Standard may derive from regulatory control.

Example 2

A pollution control authority has the power to close down the operations of entities that are not complying with environmental regulations.

The existence of this power does not constitute power over the relevant activities.

Example 3

A Local Body has the power to pass zoning laws to limit the location of fast food outlets or to ban them altogether.

The existence of this power does not constitute power over the relevant activities of the fast food outlets.

Example 4 -5 [Refer to Appendix 1]

Relevant Activities and Direction of Relevant Activities (paragraphs AG13–AG15)

IE4. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity for the purposes of this Standard.

Example 6 [Refer to Appendix 1]

Example 7

An investment vehicle is created and financed with a debt instrument held by an entity (the debt investor) and equity instruments held by a number of other investors. The equity tranche is designed to absorb the first losses and to receive any residual benefit from the investment vehicle. One of the equity investors who holds 30 per cent of the equity instruments is also the asset manager. The investment vehicle uses its proceeds to purchase a portfolio of financial assets, exposing the investment vehicle to the credit risk associated with the possible default of principal and interest payments of the assets. The transaction is marketed to the debt investor as an investment with minimal exposure to the credit risk associated with the possible default of the assets in the portfolio because of the nature of these assets and because the equity tranche is designed to absorb the first losses of the investment vehicle. The benefits from the investment vehicle are significantly affected by the management of the investment vehicle's asset portfolio, which includes decisions about the selection, acquisition and disposal of the assets within portfolio guidelines and the management upon default of any portfolio assets. All those activities are managed by the asset manager until defaults reach a specified proportion of the portfolio value (i.e., when the value of the portfolio is such that the equity tranche of the investment vehicle has been consumed). From that time, a third- party trustee manages the assets according to the instructions of the debt investor. Managing the investment vehicle's asset portfolio is the relevant activity of the investment vehicle. The asset manager has the ability to direct the relevant activities until defaulted assets reach the specified proportion of the portfolio value; the debt investor has the ability to direct the relevant activities when the value of defaulted assets surpasses that specified proportion of the portfolio value. The asset manager and the debt investor each need to determine whether they are able to direct the activities that most significantly affect the benefits from the investment vehicle, including considering the purpose and design of the investment vehicle as well as each party's exposure to variability of benefits.

Rights that Give an Entity Power over another Entity (paragraphs AG16–AG28)

IE5. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity for the purposes of this Standard.

Example 8

A Local Body establishes a housing program that provides low-cost housing to weaker sections of society. The program is operated under an agreement with a development authority. The development authority's only activity is to manage the housing facility. The development authority has no ownership instruments.

The relevant activities of the development authority comprise:

- Reviewing and selecting applicants for housing;
- The day-to-day operation of the housing program;
- Maintaining the houses and common facilities; and
- Improving and extending the housing facilities.

The board of governors of the development authority has 16 members, with eight appointed by (and subject to removal by) the Local Body. The chair is appointed by the board from amongst the appointees of the Local Body, and has a casting vote that is rarely exercised. The board meets regularly and reviews reports received from the development authority's management. Based on these reports, the board may confirm or override management decisions. In addition, the board makes decisions on major issues such as significant maintenance and investing further capital to build additional housing, after reviewing vacancy levels and the demand for housing.

The Local Body owns the land on which the housing facilities stand and has contributed capital and operating funds to the development authority since it was established. The development authority owns the housing facilities.

The development authority retains any surplus resulting from the operation of the facilities and under its constitution is unable to provide a direct financial return to the Local Body. The above fact pattern applies to examples 8A and 8B described below. Each example is considered in isolation.

Example 8A

Based on the facts and circumstances outlined above, the Local Body controls the development authority.

The Local Body has rights that give it the current ability to direct the relevant activities of the development authority, regardless of whether it chooses to exercise those rights.

The Local Body appoints eight members of the board of governors, one of whom will become the chair, who has a casting vote. As a result, the Local Body has power over the development authority through substantive rights that give it the current ability to direct the relevant activities of the development authority, regardless of whether the Local Body chooses to exercise those substantive rights.

The Local Body also has exposure or rights to variable benefits from its involvement with the development authority. The Local Body obtains non-financial benefits through the development authority furthering its social objective of meeting the need for low-cost housing for weaker sections of society. Although not able to receive direct financial benefits, the Local Body obtains indirect benefits through its ability to direct how the financial returns are to be employed in the housing program.

The Local Body also satisfies the final control criterion. Through its appointees on the board, the Local Body has the ability to use its power to affect the nature or amount of its benefits from the development authority.

The Local Body satisfies all three criteria for control and therefore the Local Body controls the development authority.

Example 8B

In this example, the facts of Example 8A apply, except that:

(a) The development authority's board of governors is elected through a public nomination and voting process that does not give rights to the Local Body to appoint board members; and

(b) Decisions made by the development authority's board are reviewed by the Local Body, which may offer advice to the development authority.

Based on the revised facts and circumstances outlined above, the Local Body does not have substantive rights relating to the development authority and therefore does not have power over the development authority.

The Local Body's social objectives in relation to low- cost housing for weaker sections of society are still being achieved and therefore it will still obtain direct non-financial benefits. However, congruence of objectives alone is insufficient to conclude that one entity controls another entity (refer paragraph 36).

The Local Body does not have power and consequently does not have the ability to use power to affect the nature or amount of the Local Body's benefits. The Local Body is unable to satisfy two of the three control criteria and therefore the Local Body does not control the development authority.

Example 9

A Local Body 'A' has the right to appoint and remove the majority of members of a Local Body 'B'. This power has been used by Local Body 'A' in past but currently Local Body 'A' has not done so because it does not wish, for political reasons, to be regarded as interfering in the activities of the Local Body 'B'. In this case the Local Body 'A' still has substantive rights, even though it has chosen not to use them.

Example 10 [Refer to Appendix 1]

Example 11

An entity being assessed for control has annual shareholder meetings at which decisions to direct the relevant activities are made. The next scheduled shareholders' meeting is in eight months. However, shareholders that individually or collectively hold at least 5 per cent of the voting rights can call a special meeting to change the existing policies over the relevant activities, but a requirement to give notice to the other shareholders means that such a meeting cannot be held for at least 30 days. Policies over the relevant activities can be changed only at special or scheduled shareholders' meetings. This includes the approval of material sales of assets as well as the making or disposing of significant investments.

The above fact pattern applies to example 11A described below.

Example 11A

An entity holds a majority of the voting rights in the other entity. The entity's voting rights are substantive because the entity is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the entity can exercise its voting rights does not stop the entity from having the current ability to direct the relevant activities from the moment the entity acquires the shareholding.

Example 11B-11D [Refer to Appendix 1]

Power without a Majority of the Voting Rights and Special Voting Rights Attaching to Ownership Interests (paragraphs AG36–AG37)

IE6. The following examples illustrate assessments of whether special voting rights attaching to ownership interests in another entity give rise to power for the purposes of this Standard.

Example 13

A Local Body sold all of its shares in a company, but kept a golden share (with a nominal value of one rupee). The golden share granted the holder of the share a 15 percent shareholding in the company, and consequently the ability to block any potential takeover of the operations. It also required that the chairman of the board and the chief executive be citizens of the country. The rationale for the golden share was to protect the company from an overseas acquisition, principally on the grounds of national security.

The Local Body has protective rights, not substantive rights.

Example 14 [Refer to Appendix 1]

Control of the Board or Other Governing Body (paragraph AG38)

IE7. The following example illustrates assessments of whether an entity has control of the board or governing body of another entity for the purposes of this Standard. The existence of such control may provide evidence that an entity has sufficient rights to have power over another entity.

Example 15

A museum is governed by a board of trustees who are chosen by the Local Body responsible for funding the museum. The trustees have freedom to make decisions about the operation of the museum.

The Local Body has the power to appoint the majority of the museum's trustees. The Local Body has the potential to exercise power over the museum.

Economic Dependence (paragraphs AG41–AG42)

IE8. The following examples illustrate assessments of whether dependence on funding from another entity gives rise to power in the context of this Standard.

Example 16

A research institution is one of many institutions that receive the majority of their funding from a Local Body. The institutions submit proposals and the funding is allocated through a tendering process. The research institution retains the right to accept or decline funding.

The Local Body does not control the research institution because the research institution can choose to decline funding from the Local Body, seek alternative sources of funding or cease to operate.

Example 17

A catering entity has a binding arrangement to supply food to a Local Body-owned school. The arrangement is between the catering entity and the school. The school contracts generate the majority of the revenue of the catering entity. There are general requirements, set out in regulations, which are applicable to all such arrangements including nutritional standards and policies on procurement. For example, the arrangements specify how much produce must be purchased locally.

Current arrangements are for a period of two years. At the end of this period, if the catering entity wishes to continue supplying school meals it is required to go through a tendering process and compete with other entities for the operation.

The school does not control the catering entity because the catering entity can choose to stop supplying school meals, seek other work, or cease to operate.

Example 18

An international donor funds a project of a Local Body. The Local Body has its own governing board but is highly dependent on the donor for funding. The Local Body retains the power to turn down funding from the donor.

The international donor does not control the Local Body because the Local Body can choose not to accept funding from the donor and seek alternative sources of funding, or cease to operate.

Voting Rights (paragraphs AG43–AG48)

IE9. The following examples illustrate assessments of whether an entity with less than a majority of the voting rights in another entity has the practical ability to direct the relevant activities unilaterally, and whether its rights are sufficient to give it power over that other entity for the purposes of this Standard.

Example 19

An entity acquires 48 per cent of the voting rights of another entity. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders have any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the entity determined that a 48 per cent interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the entity concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

Example 20

Entity A holds 40 per cent of the voting rights of another entity and twelve other investors each hold 5 per cent of the voting rights of the other entity. A shareholder agreement grants Entity A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. In this case, Entity A concludes that the absolute size of its holding and the relative size of the other shareholdings alone are not conclusive in determining whether it has rights sufficient to give it power. However, Entity A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the other entity. The fact that Entity A might not have exercised this right or the likelihood of Entity A exercising its right to select, appoint or remove management should not be considered when assessing whether Entity A has power.

Example 21

Entity A holds 45 per cent of the voting rights of another entity. Two other investors each hold 26 per cent of the voting rights of the other entity. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision- making. In this case, the size of Entity A's voting interest and its size relative to the other shareholdings are sufficient to conclude that Entity A does not have power. Only two other investors would need to co-operate to be able to prevent Entity A from directing the relevant activities of the other entity.

Example 22

An entity holds 35 per cent of the voting rights of another entity. Three other shareholders each hold 5 per cent of the voting rights of the other entity. The remaining voting rights are held by numerous other shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has arrangements to consult any of the others or make collective decisions. Decisions about the relevant activities of the other entity require the approval of a majority of votes cast at relevant shareholders' meetings—75 per cent of the voting rights of the other entity have been cast at recent relevant shareholders' meetings. In this case, the active participation of the other shareholders at recent shareholders' meetings indicates that the entity would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the entity has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the entity.

IE10. Example 23-24 [Refer to Appendix 1]

Power when Voting or Similar Rights do not have a Significant Effect on Benefits (paragraphs AG53–AG55 and paragraph C3 of Appendix C)

IE11. The following examples illustrate assessments of whether an entity has power in the absence of voting rights or similar rights for the purposes of this Standard.

Example 25

A Local Body has legislation that governs the establishment of cultural and heritage boards. These boards have a separate legal status and have limited liability. The powers and objectives of the boards, along with their reporting requirements are specified by legislation. The main function of each board is to administer the board's assets, mainly property, for the general benefit of beneficiaries. Boards are permitted to spend money on the promotion of health, education, vocational training, and the social and economic welfare of the beneficiaries. They have limited authority to spend money unless it is for a purpose specifically mentioned in the legislation. Each board must deliver an annual financial report to the Local Body. The beneficiaries (as defined by each board and comprising people from a specified area) elect the members of the board. Trustees are appointed for a three-year term by way of voting by beneficiaries at the annual general meeting. Each board determines its own operating and financial policies and strategy. The activities that have the biggest impact on the achievement of the boards' objectives are the management of property and the distribution of funds to the beneficiaries.

The Local Body does not control the boards. The Local Body was involved in establishing the legislation that governs the activities of the boards, but does not have rights over the relevant activities of the boards.

Example 26

Five Local Bodies create a separate company to deliver shared services to participating Local Bodies. The company operates under contract to these Local Bodies. The company's major objective is the provision of services to these Local Bodies.

The company is owned by all of the participating Local Bodies with each owning one share and allowed one vote. The chief executive of each Local Body is permitted to be a board member of the company. The board of the company is responsible for strategic direction, approval of operations cases and monitoring of performance.

For each shared activity there is an advisory group that is responsible for operational management and decision-making in relation to that activity. Each advisory group consists of one representative from each Local Body.

The benefits of the shared services arrangement are:

- Improved levels and quality of service;
- A co-ordinated and consistent approach to the provision of services;
- Reductions in the cost of support and administrative services;
- Opportunities to develop new initiatives; and
- Economies of scale resulting from a single entity representing many councils in procurement.

If further shared service activities are established that lead to the need for further capital, the company will either issue a new class of equity instrument or will form a controlled entity to hold the interest in the new assets.

The company covers its costs in two ways. It retains a percentage of savings from its bulk purchasing activities and it charges an administrative transaction cost of services provided to the Local Bodies.

None of the Local Bodies individually controls the company. In deciding how to account for its interest in the company each Local Body would also need to consider whether it is a party to a joint arrangement as defined in ASLB 37, '*Joint Arrangements*'.

Example 27

A leisure trust was established as a charity, limited by guarantee, to operate and manage sport and leisure facilities for senior citizens on behalf of a Local Body. Under the terms of the agreement with the Local Body, the leisure trust is responsible for the operational management, delivery and development of the city's sports and leisure facilities. The trust is required to operate the existing leisure facilities of the Local Body. The level of service required, including hours of operation and staffing levels, are specified by the Local Body. The leisure trust's activities must be consistent with the long-term plan of the Local Body and a significant portion of the trust's activities are funded by the Local Body. The leisure trust may not create new facilities nor may it engage in any other activities without the approval of the Local Body.

If the leisure trust ceases to operate, the proceeds must be distributed to another charity with similar purposes. The Local Body is not responsible for the debts of the leisure trust (its liability is limited to Rupee one).

The Local Body controls the leisure trust. By specifying in detail the way in which the leisure trust must operate the Local Body has predetermined the leisure trust's activities and the nature of benefits to the Local Body.

Example 28

A Local Body transfers its leisure centers, libraries and theatres to a charitable trust.

In creating the trust, the Local Body expects to benefit from cost savings, increased use of facilities by the public and better access to funding restricted to charities. The trust can decide the nature and extent of facilities to be provided and can engage in any other charitable purpose. The board of the trust is elected by the community. The Local Body is entitled to have one representative on the board. The trust is required to retain any surplus and use it for the objectives of the trust.

The Local Body benefits from the trust's activities but it does not control the trust. The Local Body cannot direct how the trust uses its resources.

Example 29

Trust A promotes, supports and undertakes programs, actions and initiatives to beautify City A. It receives funding from the Local Body for various services, including graffiti removal, beautification projects and running environmental events. It reports back to the Local Body on its performance in delivering these services. If the trust did not exist, the Local Body would need to find some other way to deliver these services. The trust also receives assistance through donations and volunteer work by the local community including local operations, schools, community groups and individuals.

The trust was originally established by an elected official of the Local Body.

The governing body of the Local Body appoints all the trustees (having regard to certain requirements such as balance in gender and location of trustees). There are between 5 and 12 trustees. The trustees appoint the officers.

Changes to the trust deed must be approved by the trustees and the governing body of the Local Body.

If the trust is wound up, surplus assets must be transferred to a similar charitable body in the same geographical area. This transfer of assets is subject to the approval of the Local Body.

The Local Body has a mix of rights over the trust including rights to:

(a) Appoint, reassign or remove members of the trust's key management personnel who have the ability to direct the relevant activities;

(b) Approve or veto operating and capital budgets relating to the relevant activities of the trust; and

(c) Veto key changes to the trust, such as the sale of a major asset or of the trust as a whole.

The Local Body is able to direct the relevant activities (the services) of the trust through its arrangements in such a way that it is able to affect the costs and quality of the services being provided. The Local Body is exposed to variable returns (both the economic effects of the service and the quality of the service). As it uses its power to affect these returns, the Local Body controls the trust.

Example 30

Entity A is a Local Body that promotes the construction of new houses, the repair and modernisation of existing houses, and the improvement of housing and living conditions. It also facilitates access to housing finance and promotes competition and efficiency in the provision of housing finance.

Entity A established a separate trust which has narrowly defined objectives. The trust's functions are to acquire interests in eligible housing loans and issue mortgage bonds. Entity A guarantees the bonds issued by the trust but does not provide ongoing funding – the trust finances its activities through the revenue from its investments. If the trust is wound up the trust's assets are to be distributed to one or more charitable organisations. Entity A does not have on-going decision-making rights over the trust's activities.

Entity A has power over the relevant activities of the trust because it determined the relevant activities of the trust when it established the trust. Entity A is also exposed to variable benefits both through its exposure to the guaranteed bonds and because the trust's activities, determined by Entity A in establishing the trust, help Entity A to achieve its objectives.

Example 31

A funding agency was established by legislation (say Companies Act, 2013). It is owned by ten local bodies. It operates on a for-profit basis. The funding agency will raise debt funding and provide that funding to the participating local bodies. Its primary purpose is to provide more efficient funding costs and diversified funding sources for the local bodies. It may undertake any other activities considered by the board to be reasonably related or incidental to, or in connection with, that operation.

The main benefits to the participating local bodies are the reduced borrowing costs. The board of the funding agency may decide to pay dividends but dividend payments are expected to be low.

The board is responsible for the strategic direction and control of the funding agency's activities. The board will comprise between four and seven directors with a majority of independent directors.

There is also a shareholders' council which is made up of ten appointees of the shareholders (including an appointee from the Local Body). The role of the shareholders' council is to:

- Review the performance of the funding agency and the Board, and report to shareholders on that performance;

- Make recommendations to shareholders as to the appointment, removal, replacement and remuneration of directors; and
- Coordinate shareholders' governance decisions.

The funding agency purchases debt securities in accordance with its lending and/or investment policies, as approved by the board and/or shareholders.

To participate in the funding agency as a principal shareholding authority, each Local Body made an initial capital investment of Rs. 100,000, provided security against future property taxes and agreed to borrow a set portion of its borrowing needs from the funding agency for a period of three years.

The participating local bodies do not control the funding agency. In deciding how to account for their interest in the funding agency the participating local bodies would also need to consider whether they are parties to a joint arrangement as defined in ASLB 37.

Example 32

Entity A's only operation activity, as specified in its founding documents, is to purchase receivables and service them on a day-to-day basis for Entity B. The servicing on a day-to-day basis includes the collection and passing on of principal and interest payments as they fall due. Upon default of a receivable Entity A automatically puts the receivable to Entity B as agreed separately in a put agreement between Entity A and Entity B. The only relevant activity is managing the receivables upon default because it is the only activity that can significantly affect Entity A's financial performance. Managing the receivables before default is not a relevant activity because it does not require substantive decisions to be made that could significantly affect Entity A's financial performance—the activities before default are predetermined and amount only to collecting cash flows as they fall due and passing them on to Entity B. Therefore, only Entity B's right to manage the assets upon default should be considered when assessing the overall activities of Entity A that significantly affect Entity A's financial performance. In this example, the design of Entity A ensures that Entity B has decision-making authority over the activities that significantly affect the financial performance at the only time that such decision-making authority is required. The terms of the put agreement are integral to the overall transaction and the establishment of Entity A. Therefore, the terms of the put agreement together with the founding documents of Entity A lead to the conclusion that Entity B has power over Entity A even though Entity B takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of Entity A.

Exposure, or Rights, to Variable Benefits from another Entity (paragraph C4 of Appendix C)

IE12. The following examples illustrate assessments of whether an entity receives variable benefits from another entity for the purposes of this Standard.

Example 33

A Local Body has established childcare centres (run by a Local Body) that provide quality early childhood education services and are critical in attracting and retaining staff of Local Body. Childcare centres obtain funding from Local Body.

The above background information is relevant to examples 33A and 33B described below. Each example is considered in isolation.

Example 33A

A Local Body has established childcare centers that receives funding from Local Body for its educational programs. The centers operate in Local Body owned buildings. Each center has its own manager, staff and budget. The centers are used by Local Body staff only. The Local Body has the right to close centers or relocate them to other properties. Because the childcare center is on Local Body property, the staff are required to comply with health and safety policies of the Local Body. The management team of the childcare center has the ability to determine all other operating policies.

Local Body receives non-financial benefits from having childcare services. Although Local Body is not involved in the day-to-day running of the centers, it has the ability to close the centers or change their hours of operation.

Local Body controls the childcare centers.

Example 33B

Local Body has made a building available free of charge for the provision of childcare services. The childcare services are provided by an incorporated society. All parents using the childcare center are members of the society. The members appoint the Board of the incorporated society and are in charge of the childcare center's operating and financial policies. The childcare center can be used by staff and the general public, with staff having priority. Because the childcare center is on Local Body property, the staff and parents are required to comply with health and safety policies of the Local Body. The incorporated society is the licensed provider of childcare services. If the incorporated society ceases to operate, its resources must be distributed to a similar non-profit organisation. The incorporated society could choose not to use the Local Body's buildings in providing its services.

Although the Local Body receives non-financial benefits from having childcare services available on Local Body's property, it does not have power to direct the relevant activities of the incorporated society. The members of the incorporated society, being the parents of the children, have the power to direct the relevant activities of the incorporated society. The Local Body does not control the incorporated society.

Link between Power and Benefits

Delegated Power (paragraphs C7-C10 of Appendix C)

IE13. The following examples illustrate assessments of whether an entity is acting as a principal or an agent for the purposes of this Standard.

Example 34

A Local Body may be responsible for monitoring the performance of another entity. The role of the Local Body is to make sure the other entity's approach is consistent with the Local Body's goals, provide Ministry with quality assurance about delivery and results and assess and notify the Ministry of any risks. The Local Body has an explicit agreement with the Ministry which sets out its monitoring responsibilities. The Local Body has the authority to request information from the other entity and provides advice to the Ministry on any funding requests from that entity. The Local Body also advises the Ministry as to whether the other entity should be permitted to undertake certain activities. The Local Body is acting as an agent of the Ministry.

Example 35

A Local Body establishes a trust to co-ordinate fundraising efforts for the benefit of health programs and other health initiatives in the region. The trust also invests and manages designated endowment funds. The funds raised are applied to the Local Body-owned hospitals and aged care facilities in the region.

The Local Body appoints all the trustees on the board of the trust and funds the trust's operating costs. The trust is a registered charity and is exempt from income tax.

Based on the following analysis, the Local Body controls the trust:

(a) The Local Body can give directions to the trustees, and the trustees have the current ability to direct the relevant activities of the trust. The trustees have power over the trust and the Local Body can replace the trustees at its discretion. The trustees' fiduciary obligation to act in the best interest of the beneficiaries does not prevent the Local Body from having power over the trust;

(b) The Local Body has exposure and rights to variable benefits from involvement with the trust;

(c) The Local Body can use its power over the trust to affect the nature or amount of the trust's benefits; and

(d) The activities of the trust are complementary to the activities of the Local Body.

Example 36-38 [Refer to Appendix 1]

Example 39

A Local Body administers ten funds. The funds hold specified assets (such as land, property and investments) that belonged to local bodies that previously had their own Local Body but which have since been amalgamated with other local bodies. The funds receive the revenue associated with the assets and certain taxes such as the property taxes for that Local Body. The rights of the funds to hold these specified assets and receive the specified revenue are set out in legislation. The assets and revenue of the fund may be applied solely for the benefit of the inhabitants of the former local bodies.

The Local Body has wide discretion over spending by the funds. Funds must be applied for the benefit of the citizens in such a manner as using reasonable judgment the Local Body thinks proper and having regard to the interests of the inhabitants of the former Local Body. The Local Body may apply the fund to spending which is not covered by taxation. Expenditure charged to the fund must be for purposes permitted by law.

The funds are controlled by the Local Body.

Example 40-44 [Refer to Appendix 1]

Accounting requirements: loss of control (paragraphs 52–55)

IE13A. The following example illustrates the treatment of a sale of an interest in a controlled entity that does not contain an operation.

Example 44A

(a) A controlling entity has a 100 per cent interest in a controlled entity that does not contain an operation. The controlling entity sells 70 per cent of its interest in the controlled entity to an associate in which it has a 20 per cent interest. As a consequence of this transaction, the controlling entity loses control of the controlled entity. The carrying amount of the net assets of the controlled entity is Rs. 100 and the carrying amount of the interest sold is Rs. 70 (Rs. 70 = Rs. 100 × 70%). The fair value of the consideration received is Rs. 210, which is also the fair value of the interest sold. The investment retained in the former controlled entity is an associate and its fair value is Rs. 90. The gain determined in accordance with paragraphs 54–55, is Rs. 200 (Rs. 200 = Rs. 210 + Rs. 90 – Rs. 100).

Investment Entities (paragraphs C17-C35 of Appendix C)

IE14. The following examples illustrate assessments of whether an entity is an investment entity for the purposes of this Standard.

Example 45-46 [Refer to Appendix 1]

Example 47

Real Estate Entity was formed to develop, own and operate retail, office and other commercial properties. Real Estate Entity typically holds its property in separate wholly-owned controlled entities, which have no other substantial assets or liabilities other than borrowings used to finance the related investment property. Real Estate Entity and each of its controlled entities report their investment properties at fair value in accordance with ASLB 16, '*Investment Property*'. Real Estate Entity does not have a set time frame for disposing of its property investments, but uses fair value to help identify the optimal time for disposal. Although fair value is one performance indicator, Real Estate Entity and its investors use other measures, including information about expected cash flows, rental revenues and expenses, to assess performance and to make investment decisions. The key management personnel of Real Estate Entity do not consider fair value information to be the primary measurement attribute to evaluate the performance of its investments but rather a part of a group of equally relevant key performance indicators.

Real Estate Entity undertakes extensive property and asset management activities, including property maintenance, capital expenditure, redevelopment, marketing and tenant selection, some of which it outsources to third parties. This includes the selection of properties for refurbishment, development and the negotiation with suppliers for the design and construction work to be done to develop such properties. This development activity forms a separate substantial part of Real Estate Entity's activities.

Real Estate Entity does not meet the definition of an investment entity because:

(a) Real Estate Entity has a separate substantial activity that involves the active management of its property portfolio, including lease negotiations, refurbishments and development activities, and marketing of properties to provide benefits other than capital appreciation, investment revenue, or both;

(b) The investment plans of Real Estate Entity do not include specified exit strategies for its investments. As a result, Real Estate Entity plans to hold those property investments indefinitely; and

(c) Although Real Estate Entity reports its investment properties at fair value in accordance with ASLB 16, fair value is not the primary measurement attribute used by management to evaluate the performance of its investments. Other performance indicators are used to evaluate performance and make investment decisions.

Example 49

Corporate Municipal Entity “A” was established with the principal activity of providing equity finance to both existing and new entities. Its investment objective is to seek capital appreciation and returns. All acquisitions are made on that basis. The strategy of the Corporate Municipal Entity “A” is to increase the fair value of investments in order to realise a gain on disposal. Management assesses and monitors fair value of the investments on a regular basis. The Corporate Municipal Entity “A” regularly disposes of investments when they reach a certain stage of maturity so as to provide funds for ongoing investment opportunities. Any surplus is distributed to the Local Body in the form of dividends.

The Corporate Municipal Entity “A” also provides investment related services to the Local Body regarding the Local Body’s policies for assisting entities in financial distress. It acts as an agent in managing and implementing some of the Local Body’s operations incentive schemes. The Corporate Municipal Entity “A” is not exposed to any losses or risks as a result of its involvement with these schemes.

The Corporate Municipal Entity “A” is an investment entity. It meets all three aspects of the definition of an investment entity.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 35 and the corresponding International Public Sector Accounting Standard (IPSAS) 35, 'Consolidated Financial Statements'.

Comparison with IPSAS 35, '*Consolidated Financial Statements*'

1. Different terminologies have been used in the ASLB 35 as compared to corresponding IPSAS 35, e.g., terms 'entity', 'statement of income and expenditure' and 'balance sheet' have been used in ASLB 35 in place of 'public sector', 'statement of financial performance' and 'statement of financial position'.

2. Paragraph 3A pertaining to applicability of ASLBs has been inserted in ASLB 35 in line with other issued ASLBs.

3. The following paragraphs of IPSAS 35 have been deleted. In order to maintain consistency with the corresponding IPSAS 35, the paragraph numbers have been retained:

   (i) Paragraphs 43-45 and AG49-52 pertaining to the concept of 'potential voting rights' have been deleted to simplify this Standard and in line with already issued ASLB 36, '*Investment in Associates and Joint Ventures*'.

   (ii) The definition of 'investment entity' provided in paragraph 14 and other paragraphs 2(e), 7, 56-64, 69-73 and AG88-106 of IPSAS 35 pertaining to the concept of 'investment entities' have been shifted from the main Standard to Appendix C namely '*Guidance for Investment Entities*' (which is not an integral part of ASLB 35) because this concept may not be relevant for Local Bodies in current scenario but may be relevant in future. Similar explanation has also been provided in a footnote appended to Appendix C.

(iii) At various places in Standard and Appendix, the reference to the Guidance on 'Financial Instruments' has been provided that is yet to be formulated/ issued. The clarification on obtaining guidance with regard to the above has been incorporated in the footnote to appended to paragraphs 22 and C3.

(iv) An investment in associate or joint venture should be accounted for in accordance with ASLB 36 read together with ASLB 34 at cost or in accordance with Guidance on Financial Instruments. (deleted paragraph 55A & C34(b))

(v) Paragraphs 68 & 74-78 of IPSAS 35 pertains to consequential changes where IPSAS 6 had been implemented which has been superseded by IPSAS 35. Therefore, the provision pertaining to the same have been deleted.

(vi) Paragraphs 79-80 pertaining to effective date have been deleted as ASLB 35 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

4. The following paragraphs of IPSAS 35 have been amended to make it more relevant in the context of Local Bodies in India:

(i) ASLB 35 prescribes that if any of the condition prescribed in paragraphs 5 is satisfied then a controlling entity can avail exemption and need not to prepare consolidated financial statements.

(ii) Paragraphs AG17, AG26, AG36, AG44 and AG 54 have been modified due to the deletion of concept of 'potential voting rights'.

(iii) The footnotes have been appended to the following paragraphs:

a. Paragraph 4: to clarify the term 'entity combination',

b. Paragraph 5: with regard to the terms/ concepts used under exemptions from consolidation, and to clarify the term 'domestic stock exchange',

(iv) The term 'aggregated financial statements' has been replaced with 'combined financial statements'. A footnote has also been appended to explain the term 'combined financial statements'. (paragraph 10)

(v) Both ASLB 35 and IPSAS 35 require that the uniform accounting policies should be used for preparation of consolidated financial statements and in case a member of economic activity uses different accounting policies for like transactions, appropriate adjustments to be made to the member's financial statements in preparing consolidated financial statements. In addition, ASLB 35 provide exemption to this that if it is not practicable to make appropriate adjustments to the accounting policies of the member, the fact should be disclosed along with a brief description of the differences between the accounting policies. (paragraph 41)

(vi) Time limit of three months has been allowed in line with already issued ASLB 36, '*Investments in Associates and Joint Ventures*' in case the end of reporting dates of 'controlled entity' and 'controlling entity' differs. A footnote has also been appended to paragraph 46 to provide more clarification regarding reporting date in the context of Local Bodies in India.

(vii) Statement of Changes in equity is not required to be prepared by the Local Bodies as per the decision of the Council of ICAI. Hence, consequential modification has been done in paragraph 49.

(viii) A flow chart has been inserted to clarify the concept of loss of control. (paragraphs 54)

5. Paragraphs 11-13 appear as 'Deleted' in IPSAS 35. In order to maintain consistency with paragraph numbers of IPSAS 35, the paragraph numbers have been retained in ASLB 35.

6. Some examples of IPSAS 35 have been deleted or modified in light of Indian conditions and some examples have been included in ASLB 35. (paragraphs 9, 16, 17, 23, 25, 29, AG11, AG26, AG31, AG42 and AG60)

7. Consequential changes resulting from the above departures have been made in ASLB 35.

8. Appendix B containing amendments to other IPSASs has been deleted. The consequential amendment in other already issued ASLBs will be taken up while undertaking project of revision of ASLBs.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 35 and the existing Accounting Standard (AS) 21, 'Consolidated Financial Statements'.

Comparison with Existing AS 21, '*Consolidated Financial Statements*'

1. ASLB 35 uses different terminologies, in certain instances, from existing AS 21. For example, ASLB 35 uses the terms "economic entity", "controlling entity", "controlled entity" and "statement of income and expenditure" whereas existing AS 21 uses the terms "group", "parent", "subsidiary" and "statement of profit and loss", respectively.

2. ASLB 35 makes the preparation of consolidated financial statements mandatory for a controlling entity (subject to limited exceptions). Whereas existing AS 21 does not mandate the preparation of consolidated financial statements by a parent. However, if a parent presents consolidated financial statements, it is required to apply existing AS 21 in preparing and presenting such financial statements.

3. As per existing AS 21, 'control' is the ownership of more than one-half of the voting power of an enterprise or control of the composition of the board of directors or other similar governing body of another enterprise so as to obtain economic benefits from its activities. Thus, existing AS 21 lays down quantitative parameters for determining whether an entity controls another entity. The definition of 'control' in ASLB 35, on the other hand, is principle based - an entity controls another entity when the entity is exposed, or has rights, to variable returns from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity. Due to differences in the definitions of 'control' under the two standards, in some cases, the assessment as to whether an entity controls another entity differ between the two standards.

4. The associates and joint ventures will be accounted for in accordance with relevant ASLBs on these subjects and they will not come under the purview of ASLB 35 whereas existing AS 21 prescribes to consolidate a group of enterprises that are under the control of a parent.

5. There can occasionally be situations where application of the definition of 'control' as per existing AS 21 results in there being two parents of an entity. In such a case, both the parents are required to consolidate the entity in their respective consolidated financial statements. On the other hand, as per the definition of 'control' under ASLB 35, control of an entity can be with one entity only.

6. As per existing AS 21, a subsidiary is excluded from consolidation when control is intended to be temporary or when it operates under severe long term restrictions which significantly impair its ability to transfer funds to the parent. Such exclusions are not there in ASLB 35.

7. As per existing AS 21, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements cannot exceed six months. Under ASLB 35, such difference cannot exceed three months.

8. Existing AS 21 is also applied in accounting for investments in subsidiaries in the separate financial statements of a parent. In ASLB, it is covered by a separate Standard namely ASLB 34, '*Separate Financial Statements*'.

9. ASLB 35 contains appendices and illustrative examples that are more reflective of the circumstances of the Local Bodies.

10. Existing AS 21 also prescribes the disclosure requirements relating to consolidated financial statements. ASLB 35 does not prescribe it, there would be a separate ASLB namely ASLB 38, '*Disclosure of Interests in Other Entities*' that will deal with the same.

Contents

Accounting Standard for Local Bodies (ASLB) 37

Joint Arrangements

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 37, *'Joint Arrangements'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., joint arrangements).

2. To meet the objective in paragraph 1, this Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

Scope

3. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in***

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

determining the type of joint arrangement in which it is involved and in accounting for the rights and obligations of the joint arrangement.

4. ***This Standard should be applied by all entities (that are described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[3]) that are a party to a joint arrangement.***

5. [Deleted]

6. [Deleted]

Definitions

7. ***The following terms are used in this Standard with the meanings specified:***

<u>Binding arrangement</u>: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

A <u>joint arrangement</u> is an arrangement of which two or more parties have joint control.

<u>Joint control</u> is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A <u>joint operation</u> is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A <u>joint operator</u> is a party to a joint operation that has joint control of that joint operation.

A <u>joint venture</u> is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

A joint venturer is a party to a joint venture that has joint control of that joint venture.

A party to a joint arrangement is an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

A separate vehicle is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards. The following terms are defined in ASLB 35, 'Consolidated Financial Statements' or ASLB 36, 'Investments in Associates and Joint Ventures': benefits, control, power, protective rights, relevant activities and significant influence.

Binding Arrangement

8. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Joint Arrangements (see paragraphs AG2–AG33)

9. ***A joint arrangement is an arrangement of which two or more parties have joint control.***

10. ***A joint arrangement has the following characteristics:***

    (a) ***The parties are bound by a binding arrangement (see paragraphs AG2–AG4).***

    (b) ***The binding arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 12–18).***

11. ***A joint arrangement is either a joint operation or a joint venture.***

Joint Control (AG5-AG10)

12. ***Joint control is the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The sharing of control may have been agreed by way of a binding arrangement*.**

13. ***An entity that is a party to an arrangement should assess whether the binding arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the benefits from the arrangement (i.e., the relevant activities).***

14. Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.

15. In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.

16. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This Standard distinguishes between parties that have joint control of a joint arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.

17. ***An entity will need to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity should make this assessment by considering all facts and circumstances (see paragraphs AG5–AG11).***

18. ***If facts and circumstances change, an entity should reassess whether it still has joint control of the arrangement.***

Types of Joint Arrangement

19. ***An entity should determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.***

20. ***An entity applies judgment when assessing whether a joint arrangement is a joint operation or a joint venture. An entity should determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties or established by legislative or executive authority and, when relevant, other facts and circumstances (see paragraphs AG12–AG33).***

21. Sometimes the parties are bound by a framework agreement that sets up the general terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties' rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.

22. ***If facts and circumstances change, an entity should reassess whether the type of joint arrangement in which it is involved has changed.***

Financial Statements of Parties to a Joint Arrangement (see paragraphs AG33A–AG37)

Joint Operations

23. ***A joint operator should recognise in relation to its interest in a joint operation:***

(a) ***Its assets, including its share of any assets held jointly;***

(b) ***Its liabilities, including its share of any liabilities incurred jointly;***

(c) ***Its revenue from the sale of its share of the output arising from the joint operation;***

(d) ***Its share of the revenue from the sale of the output by the joint operation; and***

(e) ***Its expenses, including its share of any expenses incurred jointly.***

24. ***A joint operator should account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the ASLBs applicable to the particular assets, liabilities, revenues and expenses.***

24A. ***When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation[4], as defined in ASLB 40, 'Entity Combinations', it should apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in ASLB 40, and other ASLBs, that do not conflict with the guidance in this Standard, and disclose the information that is required in those ASLBs in relation to acquisitions. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes an operation. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs AG33A–AG33D.***

25. The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs AG34–AG37.

26. ***A party that participates in, but does not have joint control of, a joint operation should also account for its interest in the***

[4] An *operation* is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services. [Refer ASLB 40 for more details].

arrangement in accordance with paragraphs 23–25 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it should account for its interest in the joint operation in accordance with the ASLBs applicable to that interest.

Joint Ventures

27. ***A joint venturer should recognise its interest in a joint venture as an investment and should account for that investment in accordance with ASLB 36, 'Investments in Associates and Joint Ventures'.***

28. ***A party that participates in, but does not have joint control of, a joint venture should account for its interest in the arrangement in accordance with Guidance on 'Financial Instruments'[5] unless it has significant influence over the joint venture, in which case it should account for it in accordance with ASLB 36.***

Separate Financial Statements

29. ***In its separate financial statements, a joint operator or joint venturer should account for its interest in:***

    (a) ***A joint operation in accordance with paragraphs 23–25; and***

    (b) ***A joint venture in accordance with paragraph 12 of ASLB 34, 'Separate Financial Statements' (at cost or in accordance with Guidance on 'Financial Instruments').***

30. ***In its separate financial statements, A party that participates in, but does not have joint control of, a joint arrangement should account for its interest in:***

    (a) ***A joint operation in accordance with paragraph 26; and***

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[5] The guidance with regard to financial instruments may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

(b) ***A joint venture in accordance with Guidance on 'Financial Instruments', unless the entity has significant influence over the joint venture, in which case it should apply paragraph 12 of ASLB 34.***

30A. Parties to a joint arrangement should disclose the interests held in a joint arrangement in accordance with ASLB 38, '*Disclosure of Interests in Other Entities'.*

Transitional Provisions

31. ***Notwithstanding the requirements of paragraph 33 of ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors', when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of ASLB 3, for the annual period immediately preceding the first annual period for which this Standard is applied (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.***

32-44. [Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 37.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 37.

Joint Arrangements

Binding Arrangement (paragraph 8)

AG2. Consistent with the definition of binding arrangements in this Standard, this discussion of binding arrangements is also relevant to enforceable arrangements created by legislative or executive authority.

AG3. When joint arrangements are structured through a separate vehicle (see paragraphs AG19–AG33), the binding arrangement, or some aspects of the binding arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.

AG4. The binding arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The binding arrangement generally deals with such matters as:

(a) The purpose, activity and duration of the joint arrangement.

(b) How the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.

(c) The decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the binding arrangement establishes joint control of the arrangement (see paragraphs AG5–AG11).

(d) The capital or other contributions required of the parties.

(e) How the parties share assets, liabilities, revenues, expenses or surplus or deficit relating to the joint arrangement.

Joint Control (paragraphs 12–18)

AG5. In assessing whether an entity has joint control of an arrangement, an entity should assess first whether all the parties, or a group of the parties, control the arrangement. ASLB 35, '*Consolidated Financial Statements'*, defines control and should be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable benefits from their involvement with the arrangement and have the ability to affect those benefits through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the benefits from the arrangement (i.e., the relevant activities), the parties control the arrangement collectively.

AG6. After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity should assess whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgment.

AG7. Sometimes the decision-making process that is agreed upon by the parties in their binding arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50 per cent of the voting rights and the binding arrangement between them specifies that at least 51 per cent of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

AG8. In other circumstances, the binding arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the binding arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.

Application Examples

Example 1

Assume that three parties namely Municipal Corporation 'A', Municipal Corporation 'B' and Municipal Corporation 'C' formed 'ABC' Municipal Company Limited and have voting rights in the company in the equity shareholding ratio of 40:35:25. 'ABC' Municipal Company Limited will transform the municipal schools situated in the jurisdictions of the aforesaid municipal corporations through implementation of smart school initiatives in municipal schools such as creation of clean, hygienic & safe environment, introduction of digital techniques for smart teaching & learning (e.g., LED screens in classrooms), installation of CCTV surveillance system & firefighting system, playground development, provision of music, sports & arts equipment, etc., that will uplift education standards for around 5000+ students who are studying in municipal schools.

The binding agreement between the municipal corporations specifies that at least 70 per cent of the voting rights is required to make decisions about the relevant activities of the company.

Which entities are jointly controlling the 'ABC' Municipal Company Limited?

Analysis

Municipal Corporation 'A' and Municipal Corporation 'B' have joint control of the arrangement because the terms of the binding agreement require at least 70 per cent of the voting rights to make decisions about the relevant activities of the company and Municipal Corporation 'A' & Municipal Corporation 'B' jointly hold more than 70 percent in voting rights.

Municipal Corporation 'A' and Municipal Corporation 'B' will be either joint operator (if joint arrangement is joint operation) or joint venturer (if joint arrangement is joint venture) depending upon other

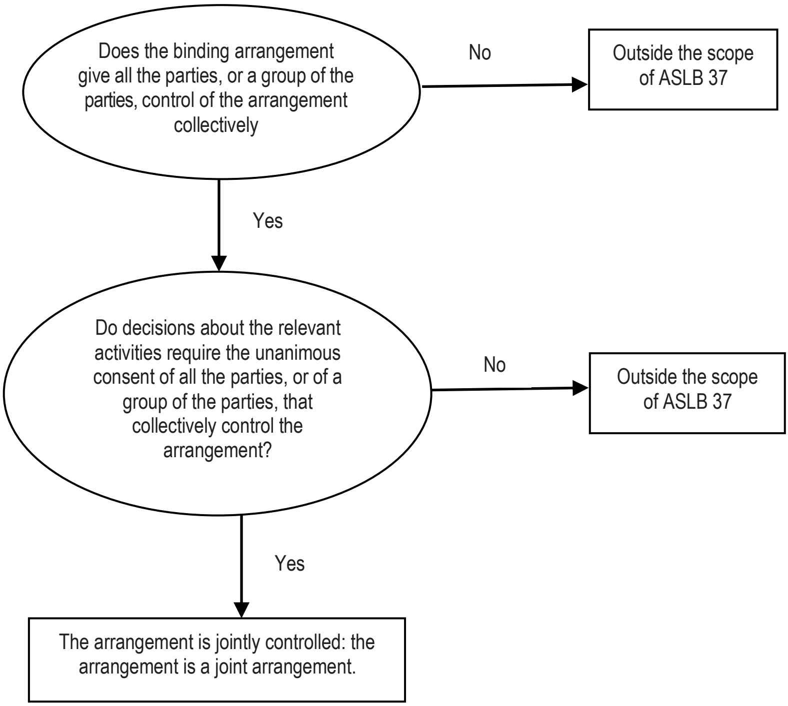
facts and circumstances of the joint arrangement. Municipal Corporation 'C' is a party to the joint arrangement that participates in, but does have joint control, of the arrangement as it cannot make decisions about the relevant activities of the 'ABC' Municipal Company Limited neither solely nor jointly with other municipal corporations.
Example 2 Assume that in above example 1, Municipal Corporation 'A' has 50 per cent of the voting rights in the 'ABC' Municipal Company Limited and Municipal Corporation 'B' and Municipal Corporation 'C' each have 25 per cent. The binding arrangement between Municipal Corporation 'A', Municipal Corporation 'B' and Municipal Corporation 'C' specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the 'ABC' Municipal Company Limited. Even though Municipal Corporation 'A' can block any decision, it does not control the 'ABC' Municipal Company Limited because it needs the agreement of either Municipal Corporation 'B' or Municipal Corporation 'C'. In this example, Municipal Corporation 'A', Municipal Corporation 'B' and Municipal Corporation 'C' collectively control the 'ABC' Municipal Company Limited. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (i.e., either Municipal Corporation 'A' and Municipal Corporation 'B' or Municipal Corporation 'A' and Municipal Corporation 'C'). In such a situation, to be a joint arrangement, the binding arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decide about the relevant activities of the 'ABC' Municipal Company Limited.
Example 3 Assume that in above example 1, Municipal Corporation 'A' and Municipal Corporation 'B' each have 35 per cent of the voting rights in the 'ABC' Municipal Company Limited with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. Municipal Corporation 'A' and Municipal Corporation 'B' have joint control of the 'ABC' Municipal Company Limited as they are having majority of

voting rights.

AG9. The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent. If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about the relevant activities of an arrangement, that party is not a party with joint control of the arrangement.

AG10. A binding arrangement might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement.

Assessing Joint Control



AG11. When an arrangement is outside the scope of ASLB 37, '*Joint Arrangements'*, an entity accounts for its interest in the arrangement in accordance with relevant ASLBs, such as ASLB 36, '*Investments in Associates and Joint Ventures'* or Guidance on '*Financial Instruments'*.

Types of Joint Arrangement (paragraphs 19–22)

AG12. Joint arrangements are established for a variety of purposes (e.g., as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets), and can be established using different structures and legal forms.

AG13. Some arrangements do not require the activity that is the subject of the arrangement to be undertaken in a separate vehicle. However, other arrangements involve the establishment of a separate vehicle.

AG14. The classification of joint arrangements required by this Standard depends upon the parties' rights and obligations arising from the arrangement in the normal course of operations. This Standard classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs AG16–AG33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

Classification of a Joint Arrangement

AG15. As stated in paragraph AG14, the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity should consider the following:

(a) The structure of the joint arrangement (see paragraphs AG16–AG21).

(b) When the joint arrangement is structured through a separate vehicle:

(i) The legal form of the separate vehicle (see paragraphs AG22– AG24);

(ii) The terms of the binding arrangement (see paragraphs AG25–AG28); and

(iii) When relevant, other facts and circumstances (see paragraphs AG29–AG33).

Structure of the Joint Arrangement

Joint Arrangements not Structured Through a Separate Vehicle

AG16. A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the binding arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

AG17. The binding arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to deliver services or manufacture a product together, with each party being responsible for specific areas and each using its own assets and incurring its own liabilities. The binding arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognises in its financial statements the assets and liabilities used for the specific task, and recognises its share of the revenues and expenses in accordance with the binding arrangement.

AG18. In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the binding arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognises its share of the output, revenues and expenses in accordance with the binding arrangement.

Joint Arrangements Structured through a Separate Vehicle

AG19. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

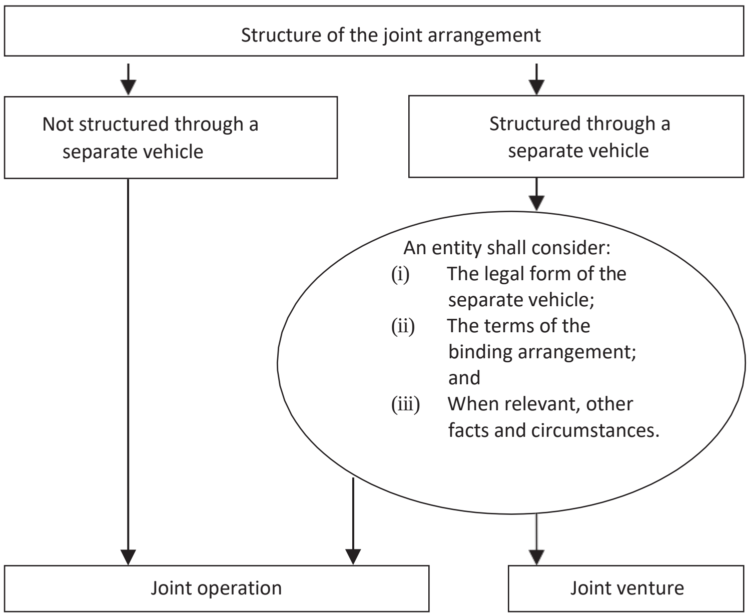
AG20. Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement, that are held in the separate vehicle.

AG21. As stated in paragraph AG15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the binding arrangement and, when relevant, any other facts and circumstances give them:

(a) Rights to the assets, and obligations for the liabilities, relating to the arrangement (i.e., the arrangement is a joint operation); or

(b) Rights to the net assets of the arrangement (i.e., the arrangement is a joint venture).

Classification of a Joint Arrangement: Assessment of the Parties' Rights and Obligations Arising from the Arrangement



The Legal Form of the Separate Vehicle

AG22. The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.

AG23. For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their binding arrangement (see paragraphs AG25– AG28) and, when relevant, other facts and circumstances (see paragraphs AG29–AG33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.

AG24. The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

Assessing the Terms of the Binding Arrangement

AG25. In many cases, the rights and obligations agreed to by the parties in their binding arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.

AG26. In other cases, the parties use the binding arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

Application Example

Example 4

Example 4(a): ABC Smart City Corporation Limited is a Special Purpose Vehicle (SPV) incorporated under the Companies Act, 2013. ABC Smart City Corporation Limited is owned by its two promoters, i.e., State Government and ABC Municipal Corporation on 50:50 equity shareholding ratio. Central Government release necessary funds in form of grants to selected cities under smart city mission project for implementation of prescribed programmes.

ABC Smart City Corporation Limited is governed by its board of directors and is answerable to its promoters and all other stakeholders for effective and timely implementation of smart city mission project as per the rules and guidelines issued by the Government of India and State Government from time to time for use of public money received by it.

The agreement between the State Government and ABC Municipal Corporation requires all decisions pertaining to SPV be made jointly.

Whether this joint arrangement is Joint Operation or Joint Venture?

Analysis

ABC Smart City Corporation Limited is a separate legal entity. The assets and liabilities held by the ABC Smart City Corporation Limited are the assets and liabilities of the incorporated entity which are different from the assets and liabilities of its promoters. The binding agreement between the parties to the joint arrangements (i.e., promoters) does not specify regarding sharing of assets and liabilities of the SPV rather it only specifies regarding joint decision-making by promoters.

It indicates that the parties have rights to the net assets of the arrangement that indicates that the arrangement is a joint venture.

Example 4(b): If, in the above example, the terms of the binding agreement between the State Government and ABC Municipal Corporation are as follows:

— State Government and ABC Municipal Corporation have interest in the assets of the ABC Smart City Corporation Limited.

— State Government and ABC Municipal Corporation have obligations for liabilities of ABC Smart City Corporation Limited in specified proportion, i.e., in proportion of equity shareholding in SPV.

— The surplus or deficit of SPV is shared by State Government and ABC Municipal Corporation on the basis of equity shareholding ratio.

Whether this joint arrangement is Joint Operation or Joint Venture?

Analysis

The joint arrangement is carried out through a SPV but the parties to the arrangement have right to the assets and obligation for the liabilities of SPV as per binding agreement.

State Government and ABC Municipal Corporation each will recognise in its financial statements its share of assets, liabilities, revenue and expenses resulting from the joint arrangement.

It indicates that the parties have rights to the assets and liabilities of the arrangement that indicates that the arrangement is a joint operation.

AG27. The following table compares common terms in binding arrangements of parties to a joint operation and common terms in binding arrangements of parties to a joint venture. The examples of the binding terms provided in the following table are not exhaustive.

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
The terms of the binding arrangement	The binding arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (i.e., it is the separate vehicle, not the parties, that has rights to the assets,

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
		and obligations for the liabilities, relating to the arrangement).
Rights to assets	The binding arrangement establishes that the parties to the joint arrangement share all interests (e.g., rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The binding arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (i.e., no rights, title or ownership) in the assets of the arrangement.
Obligations for liabilities	The binding arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is	The binding arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.
		The binding arrangement establishes that the parties to the joint arrangement are liable to the arrangement only

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
	directly attributed to them).	to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.
	The binding arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The binding arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
Revenues, expenses, surplus or deficit	The binding arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the binding arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their	The binding arrangement establishes each party's share in the surplus or deficit relating to the activities of the arrangement.

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
	ownership interest in the joint arrangement. In other instances, the parties might have agreed to share the surplus or deficit relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	
Guarantees	The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).	

AG28. When the binding arrangement specifies that the parties have rights

to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs AG29–AG33) for the purposes of classifying the joint arrangement.

Assessing Other Facts and Circumstances

AG29. When the terms of the binding arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties should consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.

AG30. A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The binding terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.

AG31. When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the service potential or economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.

AG32. The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

Application Example

Example 5

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The binding arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the binding arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break- even level.

From the fact pattern above, the following facts and circumstances are relevant:

- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.

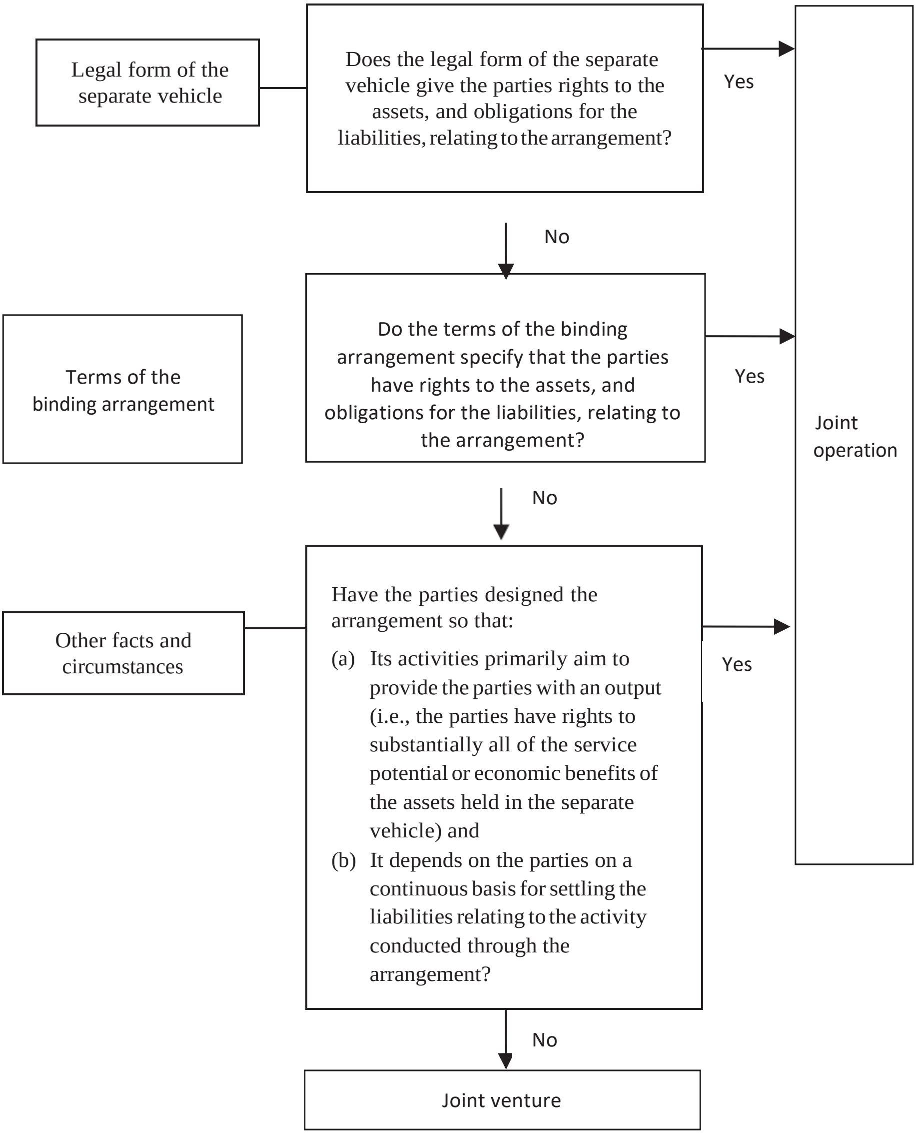
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the service potential or economic benefits of the assets of entity C.

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the binding arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

AG33. The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

Classification of a Joint Arrangement Structured Through a Separate Vehicle



Financial Statements of Parties to a Joint Arrangement (paragraphs 23–28)

Accounting for Acquisitions of Interests in Joint Operations

AG33A. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in ASLB 40, it should apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in ASLB 40, and other ASLBs, that do not conflict with the guidance in this Standard and disclose the information required by those ASLBs in relation to acquisitions. The principles on acquisition accounting that do not conflict with the guidance in this Standard include but are not limited to:

(a) Measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in ASLB 40 and other ASLBs;

(b) Recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognised in accordance with Guidance on '*Financial Instruments*';

(c) Recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and

(d) Testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by ASLB 26, '*Impairment of Cash-Generating Assets'*, for goodwill acquired in an acquisition.

AG33B. Paragraphs 24A and AG33A also apply to the formation of a joint operation if, and only if, an existing operation, as defined in ASLB 40, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, those paragraphs do not apply to the formation of a joint operation if all of the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute operations to the joint operation on its formation.

AG33C. A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in ASLB 40, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

AG33CA. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes an operation as defined in ASLB 40. In such cases, previously held interests in the joint operation are not remeasured.

AG33D. Paragraphs 24A and AG33A–AG33C do not apply on the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

Accounting for Sales or Contributions of Assets to a Joint Operation

AG34. When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator should recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

AG35. When such transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses should be recognised fully by the joint operator.

Accounting for Purchases of Assets from a Joint Operation

AG36. When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it should not recognise its share of the gains and losses until it resells those assets to a third party.

AG37. When such transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, a joint operator should recognise its share of those losses.

ILLUSTRATIVE EXAMPLES

CONTENTS

Paragraphs

Illustrative Examples

These examples accompany, but are not part of, ASLB 37.

IE1. These examples portray hypothetical situations illustrating the judgments that might be used when applying ASLB 37 in different situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 37.

Example 1 – Construction Services

IE2. A and B (the parties) are two entities whose activities include the provision of many types of public and private construction services. Entity A is a private sector entity. Entity B is owned by a Local Body. They set up a binding arrangement to work together for the purpose of fulfilling a contract with a Local Body for the design and construction of a road between two cities. The binding arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road. The joint arrangement will have no further involvement once the road has been completed. The road will be transferred to the Local Body at that point.

IE3. The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the Local Body. In addition, the assets and liabilities relating to the arrangement are held in entity Z. The main feature of entity Z's legal form is that the parties, not entity Z, have rights to the assets, and obligations for the liabilities, of the entity.

IE4. The binding arrangement between A and B additionally establishes that:

(a) The rights to all the assets needed to undertake the activities of the arrangement are shared by the parties on the basis of their participation shares in the arrangement;

(b) The parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the basis of their participation shares in the arrangement; and

(c) The surplus or deficit resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.

IE5. For the purposes of co-ordinating and overseeing the activities, A and B appoint a project manager, who will be an employee of one of the parties. After a specified time, the role of the project manager will rotate to an employee of the other party. A and B agree that the activities will be executed by the employees on a “no gain or loss” basis.

IE6. In accordance with the terms specified in the contract with the Local Body, entity Z invoices the construction services to the Local Body on behalf of the parties.

Analysis

IE7. The joint arrangement is carried out through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in entity Z are the parties’ assets and liabilities). This is reinforced by the terms agreed by the parties in their binding arrangement, which state that A and B have rights to the assets, and obligations for the liabilities, relating to the arrangement that is conducted through entity Z. The joint arrangement is a joint operation. It is not a service concession arrangement.

IE8. A and B each recognise in their financial statements their share of the assets (e.g., property, plant, and equipment, accounts receivable) and their share of any liabilities resulting from the arrangement (e.g., accounts payable to third parties) on the basis of their agreed participation share. Each also recognises its share of the revenue and expenses resulting from the construction services provided to the Local Body through entity Z.

Example 2 – Service Centre Operated Jointly

IE9. Two entities (the parties) set up a separate vehicle (entity X) for the purpose of establishing and operating parking lots. The binding arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the allocation of building space for parking lots, managing the parking of vehicles, maintaining the parking lot, hiring security guards, collecting parking charges, etc.

IE10. The terms of the binding arrangement are such that:

(a) Entity X owns the building space. The binding arrangement does not specify that the parties have rights to the building space.

(b) The parties are not liable in respect of the debts, liabilities or obligations of entity X. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.

(c) The parties have the right to sell or pledge their interests in entity X.

(d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity X.

Analysis

IE11. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the binding arrangement establish that the parties have rights to the net assets of entity X.

IE12. On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

IE13. The parties recognise their rights to the net assets of entity X as investments and account for them in accordance with ASLB 36.

Example 3 – Joint Provision of Assisted Living Services

IE14. A health care provider (entity X) owned by a Local Body and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly and establish a separate company (entity Z) for the purpose. The legal form of the company confers the rights to the assets and obligations for liabilities to the company itself. The agreement between entity X and entity Y requires all decisions be made jointly. The agreement also confirms:

(a) Entity X will provide the assisted living services. Entity Y will construct the premises.

(b) The assets of the arrangement are owned by entity Z, the company. Neither party will be able to sell, pledge, transfer or otherwise mortgage the assets of entity Z.

(c) The liability of the parties is limited to any unpaid capital of entity Z.

(d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity Z.

(e) Profits of entity Z will be distributed to entity X and entity Y 40:60, being the parties' respective interests in the arrangement.

Analysis

IE15. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the binding arrangement establish that the parties have rights to the net assets of entity Z.

IE16. On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, or that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

IE17. The parties recognise their rights to the net assets of entity Z as investments and account for them in accordance with ASLB 36.

Variation

IE18. A health care provider (entity X) owned by a Local Body and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. The agreement between entity X and entity Y requires all decisions to be made jointly. The agreement confirms:

(a) Entity X will supply operational assets including office equipment, motor vehicles and furniture and fittings for the assisted living premises.

(b) Entity Y will construct the premises and will continue to own the premises. Entity Y will be responsible for the ongoing maintenance of the premises. Entity Y cannot sell the premises without first offering entity X the right to purchase the premises. Entity Y is entitled to 100% of any gain on eventual sale of the premises.

(c) The services will be delivered through a new entity, entity Z, established for this purpose.

(d) Each party will pay for 50% of the expenses for operating the services.

(e) Any profits from providing the assisted living services will be shared equally between entity X and entity Y.

(f) Entity X will be responsible for managing staff and for any liabilities arising from personal grievance claims and health and safety issues.

(g) Entity Y will be responsible for any liabilities to make good any defects in the premises or alterations to the premises required to meet health and safety codes and changes in those codes.

Analysis of Variation

IE19. Although the services are delivered through a separate vehicle, entity X and entity Y continue to own the assets used to provide the services. The joint arrangement is a joint operation.

IE20. Entity X and entity Y each recognise in their financial statements their own assets and liabilities. They also recognise their share of the revenue and expenses resulting from the provision of assisted living services through entity Z.

Example 4 – Joint Manufacturing and Distribution of a Product

IE21. Entities A and B (the parties) have set up a strategic and operating agreement (the framework agreement) in which they have agreed the terms according to which they will conduct the manufacturing and distribution of a product (product P) in different markets.

IE22. The parties have agreed to conduct manufacturing and distribution activities by establishing joint arrangements, as described below:

(a) Manufacturing activity: the parties have agreed to undertake the manufacturing activity through a joint arrangement (the manufacturing arrangement). The manufacturing arrangement is structured in a separate vehicle (entity M) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity M are the assets and liabilities of entity M and not the assets and liabilities of the parties). In accordance with the framework agreement, the parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement in accordance with their ownership interests in entity M. The parties subsequently sell product P to another arrangement, jointly controlled by the two parties themselves, that has been established exclusively for the distribution of product P as described below. Neither the framework agreement nor the binding arrangement between A and B dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity.

(b) Distribution activity: the parties have agreed to undertake the distribution activity through a joint arrangement (the distribution arrangement). The parties have structured the distribution arrangement in a separate vehicle (entity D) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity D are the assets and liabilities of entity D and not the assets and liabilities of the parties). In accordance with the framework agreement, the distribution arrangement orders its requirements for product P from the parties according to the needs of the different markets where the distribution arrangement sells the product. Neither the framework agreement nor the binding arrangement between A and B dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

IE23. In addition, the framework agreement establishes:

(a) That the manufacturing arrangement will produce product P to meet the requirements for product P that the distribution arrangement places on the parties;

(b) The commercial terms relating to the sale of product P by the manufacturing arrangement to the parties. The manufacturing arrangement will sell product P to the parties at a price agreed by A and B that covers all production costs incurred. Subsequently, the parties sell the product to the distribution arrangement at a price agreed by A and B.

(c) That any cash shortages that the manufacturing arrangement may incur will be financed by the parties in accordance with their ownership interests in entity M.

Analysis

IE24. The framework agreement sets up the terms under which parties A and B conduct the manufacturing and distribution of product P. These activities are undertaken through joint arrangements whose purpose is either the manufacturing or the distribution of product P.

IE25. The parties carry out the manufacturing arrangement through entity M whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the binding arrangement dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, when considering the following facts and circumstances the parties have concluded that the manufacturing arrangement is a joint operation:

(a) The parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement. Consequently, A and B have rights to substantially all the service potential or economic benefits of the assets of the manufacturing arrangement.

(b) The manufacturing arrangement manufactures product P to meet the quantity and quality needs of the parties so that they can fulfill the demand for product P of the distribution arrangement. The exclusive dependence of the manufacturing arrangement upon the parties for the generation of cash flows and the parties' commitments to provide funds when the manufacturing arrangement incurs any cash shortages indicate that the parties have an obligation for the liabilities of the manufacturing arrangement, because those liabilities will be settled through the parties' purchases of product P or by the parties' direct provision of funds.

IE26. The parties carry out the distribution activities through entity D, whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the binding arrangement dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

IE27. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the distribution arrangement or that the parties have an obligation for the liabilities relating to that arrangement. The distribution arrangement is a joint venture.

IE28. A and B each recognise in their financial statements their share of the assets (e.g., property, plant and equipment, cash) and their share of any liabilities resulting from the manufacturing arrangement (e.g., accounts payable to third parties) on the basis of their ownership interest in entity M. Each party also recognises its share of the expenses resulting from the manufacture of product P incurred by the manufacturing arrangement and its share of the revenues relating to the sales of product P to the distribution arrangement.

IE29. The parties recognise their rights to the net assets of the distribution arrangement as investments and account for them in accordance with ASLB 36.

Variation

IE30. Assume that the parties agree that the manufacturing arrangement described above is responsible not only for manufacturing product P, but also for its distribution to third-party customers.

IE31. The parties also agree to set up a distribution arrangement like the one described above to distribute product P exclusively to assist in widening the distribution of product P in additional specific markets.

IE32. The manufacturing arrangement also sells product P directly to the distribution arrangement. No fixed proportion of the production of the manufacturing arrangement is committed to be purchased by, or to be reserved to, the distribution arrangement.

Analysis of Variation

IE33. The variation has affected neither the legal form of the separate vehicle in which the manufacturing activity is conducted nor the binding terms relating to the parties' rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, it causes the manufacturing arrangement to be a self-financed arrangement because it is able to undertake trade on its own behalf, distributing product P to third-party customers and, consequently, assuming demand, inventory and credit risks. Even though the manufacturing arrangement might also sell product P to the distribution arrangement, in this scenario the manufacturing arrangement is not dependent on the parties to be able to carry out its activities on a continuous basis. In this case, the manufacturing arrangement is a joint venture.

IE34. The variation has no effect on the classification of the distribution arrangement as a joint venture.

IE35. The parties recognise their rights to the net assets of the manufacturing arrangement and their rights to the net assets of the distribution arrangement as investments and account for them in accordance with ASLB 36.

Example 5 -- IE36-40. [Refer to Appendix 1]

Example 6 – Waste Management Activities

IE41. Entities A and B (the parties) set up a separate vehicle (entity H) under a Joint Operating Agreement (JOA) to undertake waste management activities within the jurisdiction of entities A & B. Entity H is to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

IE42. Entity H plan waste management activities like door-to-door collection of waste, transport, processing & treatment (e.g. segregation & scientific recycling of waste, conversion of waste into compost and generation of bio gas/bio CNG/power) and disposal of waste (e.g. sanitary landfill activities). The aforesaid activities involve setting-up, operation & maintenance of waste treatment plants; developing and maintaining dumping sites/landfill sites.

IE43. The agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarised below.

Agreement

IE44. The board of entity H consists of a director from each party. Each party has a 50 per cent holding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

Joint Operating Agreement (JOA)

IE45. The JOA establishes an Operating Committee. This Committee consists of one representative from each party. Each party has a 50 per cent participating interest in the Operating Committee.

IE46. The Operating Committee approves the budgets and work programs relating to the activities, which also require the unanimous consent of the representatives of each party. One of the parties is appointed as operator and is responsible for managing and conducting the approved work programs.

IE47. The JOA specifies that the rights and obligations arising from the waste management activities should be shared among the parties in proportion to each party's holding in entity H. In particular, the JOA establishes that the parties share:

(a) The rights and the obligations arising from the waste management activities of entity H;

(b) The income generated from sale of recycled material and supply of biogas/bio CNG/power; and

(c) All costs associated with all waste management activities.

IE48. The costs incurred in relation to all waste management activities are covered by cash calls on the parties. If either party fails to satisfy its monetary obligations, the other is required to contribute to entity H, the amount in default. The amount in default is regarded as a debt owed by the defaulting party to the other party.

Analysis

IE49. The parties carry out the joint arrangement through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The parties have been able to reverse the initial assessment of their rights and obligations arising from the legal form of the separate vehicle in which the arrangement is conducted. They have done this by agreeing terms in the JOA that entitle them to rights to the assets and obligations for the liabilities that are held in entity H. The joint arrangement is a joint operation.

IE50. Both entity A and entity B recognise in their financial statements their own share of the assets and of any liabilities resulting from the arrangement on the basis of their agreed participating interest. On that basis, each party also recognises its share of the income and its share of the expenses.

Example 7 – Compressed Bio Gas Arrangement

IE51. Company 'A' is the largest state owned natural gas processing and distribution company in India.

IE52. Company 'A' enters into a joint arrangement with Municipal Corporation 'B' to convert wet (green) waste into biogas. Under that arrangement, Company 'A' and Municipal Corporation 'B' (the parties) form a new separate vehicle, entity C. Each party has 50 per cent ownership interest in entity 'C'. The main feature of entity C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

IE53. The binding arrangement between the parties specifies that:

(a) Company 'A' and Municipal Corporation 'B' must each appoint two members to the board of entity 'C'. The board of directors must unanimously agree the strategy and investments made by entity 'C'.

(b) Company 'A' will contribute a gas plant that may be used by Entity 'C' to produce compressed biogas. Entity 'C' will make a nominal annual payment to Company 'A' for use of such facility.

(c) Municipal Corporation 'B' will collect waste, segregate it and then provide the wet (biodegradable) waste to entity 'C'. The cost incurred in this regard will be borne by Municipal Corporation 'B' itself.

(d) Day-to-day management of the gas plant, including development and construction activities, will be undertaken by the staff of Company 'A' in accordance with the directions jointly agreed by the parties. Entity 'C' will reimburse Company 'A' for the costs it incurs in managing the gas plant.

(e) Entity C is liable for liabilities incurred in the ordinary course of running of gas plant, such as accounts payable, site restoration and decommissioning liabilities, etc.

(f) Entity ‘C’ will supply biogas to residential and industrial consumers and may earn profits.

(g) Company ‘A’ and Municipal Corporation ‘B’ have equal shares in the surplus from the activities carried out in the arrangement and as such, are entitled to equal shares of any dividends or similar distributions made by entity ‘C’.

IE54. The binding arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity ‘C’.

IE55. The board of entity C decides to enter into a financing arrangement with a syndicate of lenders to help fund the development of an additional gas plant and construction of the CNG facility. The estimated total cost of the development and construction is Rs. 1,000 million.

IE56. The lending syndicate provides entity C with a Rs. 700 million loan. The arrangement specifies that the syndicate has recourse to Company ‘A’ and Municipal Corporation ‘B’ only if entity C defaults on the loan arrangement during the set up of the gas plant. The lending syndicate agrees that it will not have recourse to Company ‘A’ and Municipal Corporation ‘B’ once the plant is in production because it has assessed that the cash inflows that entity C should generate from sales will be sufficient to meet the loan repayments. Although at this time the lenders have no recourse to Company ‘A’ and Municipal Corporation ‘B’, the syndicate maintains protection against default by entity C by taking a lien on the gas plant.

Analysis

IE57. The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of entity ‘C’, but they establish that the parties have rights to the net assets of entity ‘C’. The recourse nature of the financing arrangement during the set up of the gas plant (i.e., Company ‘A’ and

Municipal Corporation 'B' providing separate guarantees during this phase) does not, by itself, impose on the parties an obligation for the liabilities of entity C (i.e., the loan is a liability of entity C). Company 'A' and Municipal Corporation 'B' have separate liabilities, which are their guarantees to repay that loan if entity C defaults during the set up phase.

IE58. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets of entity 'C' and that the parties have an obligation for the liabilities of entity 'C'. The joint arrangement is a joint venture.

IE59. The parties recognise their rights to the net assets of entity C as investments and account for them in accordance with ASLB 36.

Example 8—Accounting for acquisitions of interests in joint operations in which the activity constitutes an operation

IE60. Municipalities A, B and C have joint control of Joint Operation D whose activity constitutes an operation, as defined in ASLB 40, '*Entity Combinations*'.

IE61. Municipality E acquires municipality A's 40 per cent ownership interest in Joint Operation D at a cost of Rs. 300 and incurs acquisition-related costs of Rs. 50.

IE62. The binding arrangement between the parties that Municipality E joined as part of the acquisition establishes that Municipality E's shares in several assets and liabilities differ from its ownership interest in Joint Operation D. The following table sets out Municipality E's share in the assets and liabilities related to Joint Operation D as established in the binding arrangement between the parties:

Municipality E's share in the assets and liabilities related to Joint Operation D	
Property, plant and equipment	48%
Intangible assets (excluding goodwill)	90%
Accounts receivable	40%
Inventory	40%

Retirement benefit obligations	15%
Accounts payable	40%
Contingent liabilities	56%

Analysis

IE63. Municipality E recognises in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph 23).

IE64. It applies the principles on acquisition accounting in ASLB 40 and other ASLBs for identifying, recognising, measuring and classifying the assets acquired, and the liabilities assumed, on the acquisition of the interest in Joint Operation D. This is because Municipality E acquired an interest in a joint operation in which the activity constitutes an operation (see paragraph 24A).

IE65. However, Municipality E does not apply the principles on acquisition accounting in ASLB 40 and other ASLBs that conflict with the guidance in this Standard. Consequently, in accordance with paragraph 23, Municipality E recognises, and therefore measures, in relation to its interest in Joint Operation D, only its share in each of the assets that are jointly held and in each of the liabilities that are incurred jointly, as stated in the binding arrangement. Municipality E does not include in its assets and liabilities the shares of the other parties in Joint Operation D.

IE66. ASLB 40 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions; for example, a reacquired right recognised as an intangible asset is measured on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Such measurement does not conflict with this Standard and thus those requirements apply.

IE67. Consequently, Municipality E determines the fair value, or other measure specified in ASLB 40, of its share in the identifiable assets and liabilities related to Joint Operation D. The following table sets out the fair value or other measure specified by ASLB 40 of Municipality E's shares in the identifiable assets and liabilities related to Joint Operation D:

Fair value or other measure specified by ASLB 40 for Municipality E's shares in the identifiable assets and liabilities of Joint Operation D	
	(Rs.)
Property, plant and equipment	138
Intangible assets (excluding goodwill)	72
Accounts receivable	84
Inventory	70
Retirement benefit obligations	(36)
Accounts payable	(48)
Contingent liabilities	(52)
Net assets	**228**

IE68. In accordance with ASLB 40, the excess of the consideration transferred over the amount allocated to Municipality E's shares in the net identifiable assets is recognised as goodwill:

	Rs.
Consideration transferred	300
Municipality E's shares in the identifiable assets and liabilities relating to its interest in the joint operation	228
Goodwill	**72**

IE69. Acquisition-related costs of Rs. 50 are not considered to be part of the consideration transferred for the interest in the joint operation. They are recognised as expenses in surplus or deficit in the period that the costs are incurred and the services are received (see paragraph 111 of ASLB 40).

Example 9—Contributing the right to use know-how to a joint operation in which the activity constitutes an operation

IE70. Municipal Corporation 'A' and Municipal Corporation 'B' provide various services to the citizens residing in their jurisdiction. One of the main services provided by such entities is water supply.

IE71. Municipal Corporations 'A' and 'B' set up a water purification plant under binding arrangement (Joint Operation Z). Municipal Corporation 'A' and Municipal Corporation 'B' share joint control of Joint Operation Z. This arrangement is a joint operation in which the activity constitutes an operation, as defined in ASLB 40.

IE72. After several years, the joint operators (Municipal Corporations 'A' and 'B') concluded that it is feasible to develop an advanced water plant to further purify wastewater using Material M. However, processing Material M requires specialist know-how available with only a few.

IE73. In order to get access to existing know-how in processing Material M, Municipal Corporations 'A' and 'B' arrange for Entity C to join as another joint operator by acquiring an interest in Joint Operation Z from Municipal Corporations 'A' and 'B' and becoming a party to the binding arrangements.

IE74. Entity C's activity so far has been solely the purification of wastewater for various industries. It has long-standing and extensive knowledge in processing Material M.

IE75. In exchange for its share in Joint Operation Z, Entity C pays cash to Municipal Corporations 'A' and 'B' and grants the right to use its know-how in processing Material M for the purposes of Joint Operation Z. In addition, Entity C seconds some of its employees who are experienced in processing Material M to Joint Operation Z. However, Entity C does not transfer control of the know-how to Municipal Corporations 'A' and 'B' or Joint Operation Z and retains all the rights to it. In particular, Entity C is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or compensation to Municipal Corporations 'A' and 'B' or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE76. The fair value of Entity C's know-how on the date of the acquisition of the interest in the joint operation is Rs. 1,000. Immediately before the acquisition, the carrying amount of the know-how in the financial statements of Entity C was Rs. 300.

Analysis

IE77. Entity C has acquired an interest in Joint Operation Z in which the activity of the joint operation constitutes an operation, as defined in ASLB 40.

IE78. In accounting for the acquisition of its interest in the joint operation, Entity C applies all the principles on acquisition accounting in ASLB 40 and other ASLBs that do not conflict with the guidance in this Standard (see paragraph 24A). Entity C therefore recognises in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph 23).

IE79. Entity C granted the right to use its know-how in processing Material M to Joint Operation Z as part of joining Joint Operation Z as a joint operator. However, Entity C retains control of this right because it is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or any compensation to Municipal Corporations A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE80. Consequently, Entity C continues to recognise the know-how in processing Material M after the acquisition of the interest in Joint Operation Z because it retains all the rights to it. This means that Entity C will continue to recognise the know-how based on its carrying amount of Rs. 300. As a consequence of retaining control of the right to use the know-how that it granted to the joint operation, Entity C has granted the right to use the know-how to itself. Consequently, Entity C does not remeasure the know-how, and it does not recognise a gain or loss on the grant of the right to use it.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 37 and the corresponding International Public Sector Accounting Standard (IPSAS) 37, 'Joint Arrangements'.

Comparison with IPSAS 37, *'Joint Arrangements'*

1. Different terminologies have been used in the ASLB 37 as compared to corresponding IPSAS 37, e.g., terms 'entity', 'statement of income and expenditure', 'balance sheet' and 'operations'' have been used in ASLB 37 in place of 'public sector', 'statement of financial performance', 'statement of financial position' and 'business'.

2. The following paragraphs of IPSAS 37 have been deleted/amended to make it more relevant in the context of Local Bodies in India:

    (i) Paragraph 4 modified to incorporate the provision pertaining to applicability of ASLBs in line with other issued ASLBs.

    (ii) A footnote appended to paragraph 24A to clarify the term 'operations' as per ASLB 40.

    (iii) ASLB 36 (read together with ASLB 34) does not permit the equity method to account for investments in joint ventures in separate financial statements as 'equity method' is not a measurement basis rather it is a manner of consolidation. Accordingly, the modifications made in ASLB 37. (paragraph 27)

    (iv) Paragraph 30A inserted to clarify the applicability of ASLB 38, '*Disclosure of Interests in Other Entities'* for disclosure requirements.

    (v) Paragraphs 32-41A pertaining to transitional provisions have been deleted as the methods mentioned in IPSAS 37 here have not been implemented yet in local bodies so does not seem relevant.

3. Paragraphs 5-6 appear as 'Deleted' in IPSAS 37. In order to maintain consistency with paragraph numbers of IPSAS 37, the paragraph numbers have been retained in ASLB 37.

4. ASLB 37 makes a reference to the Guidance on '*Financial Instruments*' and ASLBs that are yet to be formulated/ issued. The clarification on obtaining guidance in regard to those ASLBs has been incorporated in the ASLB 37.

5. Some examples of IPSAS 37 have been deleted or modified in the context of Local Bodies in India. (examples given below AG8 & AG26)

6. Consequential changes resulting from the above departures have been made in ASLB 37.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 37 and the existing Accounting Standard (AS) 27, 'Financial Reporting of Interests in Joint Ventures'.

Comparison with Existing AS 27, *'Financial Reporting of Interests in Joint Ventures'*

1. Existing AS 27 defines the term 'joint venture' as "a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control". ASLB 37 defines the term 'joint arrangement' as "an arrangement of which two or more parties have joint control" and joint arrangement has been further classified as 'joint operation' or 'joint venture'.

2. Existing AS 27 classifies joint venture into three categories, namely, jointly controlled operations, jointly controlled assets and jointly controlled entities. On the other hand, ASLB 37 classified joint arrangement into joint operation or joint venture. Arrangements that are classified as jointly controlled operations or jointly controlled assets under existing AS 27 would be classified as 'joint operations' under ASLB 37. An arrangement that is classified as a jointly controlled entity under existing AS 27 would be classified as either a joint operation or a joint venture under ASLB 37. The classification of joint arrangement under ASLB 37 depends on whether the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (a joint operation) or whether those parties have rights to the net assets of the arrangement (a joint venture).

3. Existing AS 27 requires a venturer to account for its interest in a jointly controlled entity in it's (i.e., venturer's) consolidated financial statements using proportionate consolidation method. ASLB 37 on the other hand requires such interest to be accounted for in the venturer's separate financial statements in accordance with ASLB 36,

'*Investment in Associates and Joint Ventures*'. ASLB 35, '*Consolidated Financial Statements*' does not permit to consolidate the investment in joint ventures in consolidated financial statements.

4. ASLB 37 contains appendices and illustrative examples that are more reflective of the circumstances of the Local Bodies.

Contents

Accounting Standard for Local Bodies (ASLB) 38

Disclosure of Interests in Other Entities

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1]).*

The Accounting Standard for Local Bodies (ASLB) 38, 'Disclosure of Interests in Other Entities', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned.[2]

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

   (a) The nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and

   (b) The effects of those interests on its financial position, financial performance and cash flows.

[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in disclosing information about its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated*.**

3. ***This Standard should be applied by an entity that has an interest in any of the following:***

   (a) Controlled entities;

   (b) Joint arrangements (i.e., joint operations or joint ventures);

   (c) Associates; or

   (d) Structured entities that are not consolidated.

4. ***This Standard does not apply to:***

   (a) Post-employment benefit plans or other long-term employee benefit plans to which ASLB 39, 'Employee Benefits' applies.

   (b) An entity's separate financial statements to which ASLB 34, 'Separate Financial Statements', applies. However:

   (i) If an entity has interests in structured entities that are not consolidated and prepares separate financial statements as its only financial statements, it should apply the requirements in paragraphs 40-48 when preparing those separate financial statements.

   (ii) [Refer to Appendix C]

   (c) An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.

(d) An interest in another entity that is accounted for in accordance with Guidance on 'Financial Instruments'[3]. However, an entity should apply this Standard:

(i) When that interest is an interest in an associate or a joint venture that, measured in accordance with ASLB 36, 'Investments in Associates and Joint Ventures'; or

(ii) When that interest is an interest in a structured entity that is not consolidated.

5. **[Deleted]**

5A. ***This Standard applies to all entities described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[4].***

6. [Deleted]

Definitions

7. ***The following terms are used in this Standard with the meanings specified:***

<u>Binding arrangement</u>: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

An <u>interest in another entity</u>, for the purpose of this Standard, refers to involvement by way of binding arrangements or otherwise that exposes an entity to variability of benefits from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an

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[3] The guidance with regard to financial instruments may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

[4] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.

Paragraphs AG7-AG9 provide further information about interests in other entities.

Paragraphs AG57-AG59 of ASLB 35, 'Consolidated Financial Statements' explain variability of benefits.

<u>Revenue from a structured entity,</u> for the purpose of this Standard, includes, but is not limited to, recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

A <u>structured entity is</u>:

(a) In the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factors in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements; or

(b) In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.

Paragraphs AG20-AG23 provide further information about structured entities.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards. The following terms are defined in either ASLB 34, 'Separate Financial Statements', ASLB 35, 'Consolidated Financial Statements', ASLB 36, 'Investments in Associates & Joint Ventures' or ASLB 37, 'Joint Arrangements': associate, consolidated financial statements, controlled entity, controlling entity, economic entity, equity method, investment entity, joint arrangement, joint control, joint operation, joint venture, non-controlling interest, relevant activities, separate financial statements, separate vehicle and significant influence.

Binding Arrangement

8. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with contracts between the parties.

Disclosing Information about Interests in Other Entities

9. ***To meet the objective in paragraph 1, an entity should disclose:***

(a) The significant judgments and assumptions it has made in determining:

(i) The nature of its interest in another entity or arrangement;

(ii) The type of joint arrangement in which it has an interest (paragraphs 12-14);

(iii) [Refer to Appendix C]; and

(b) Information about its interests in:

(i) Controlled entities (paragraphs 17-26);

(ii) Joint arrangements and associates (paragraphs 35-39);

(iii) Structured entities that are not consolidated (paragraphs 40-48); and

(iv) Non-quantifiable ownership interests (paragraphs 49-50).

(v) [Refer to Appendix D]

10. ***If the disclosures required by this Standard, together with disclosures required by other ASLBs, do not meet the objective in paragraph 1, an entity should disclose whatever additional information is necessary to meet that objective.***

11. ***An entity should consider the level of detail necessary to satisfy the disclosure objective in paragraph 1 and how much emphasis to place on each of the requirements in this Standard. It should aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see paragraphs AG2-AG6).***

Significant Judgments and Assumptions

12. ***An entity should disclose the methodology used to determine:***

(a) That it has control of another entity as described in paragraphs 18 and 20 of ASLB 35;

(b) That it has joint control of an arrangement or significant influence over another entity; and

(c) The type of joint arrangement (i.e., joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

13. ***The disclosures required by paragraph 12 should be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the***

information incorporated by cross-reference, the financial statements are incomplete.

14. ***To comply with paragraph 12, an entity should disclose, for example, the factors considered in determining that:***

    (a) It controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments;

    (b) It does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities);

    (c) It controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities);

    (d) It is an agent or a principal (see paragraphs AG60-AG74 of ASLB 35);

    (e) It does not have significant influence even though it holds 20 percent or more of the voting rights of another entity; and

    (f) It has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

15-16. **[Refer to Appendix C]**

Interests in Controlled Entities

17. ***An entity should disclose information that enables users of its consolidated financial statements:***

    (a) To understand:

    (i) The composition of the economic entity; and

    (ii) The interest that non-controlling interests have in the economic entity's activities and cash flows (paragraph 19); and

(b) To evaluate:

(i) The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the economic entity (paragraph 20);

(ii) The nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 21-24);

(iii) The consequences of changes in its ownership interest in a controlled entity that do not result in a loss of control (paragraph 25); and

(iv) The consequences of losing control of a controlled entity during the reporting period (paragraph 26).

18. *When the financial statements of a controlled entity used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see paragraph 46 of ASLB 35) an entity should disclose:*

(a) The date of the end of the reporting period of the financial statements of that controlled entity; and

(b) The reason for using a different date or period.

The Interest that Non-controlling Interests have in the Economic Entity's Activities and Cash Flows

19. *An entity should disclose for each of its controlled entities that have non-controlling interests that are material to the reporting entity:*

(a) The name of the controlled entity;

(b) The domicile and legal form of the controlled entity and the jurisdiction in which it operates;

(c) The proportion of ownership interests held by non-controlling interests;

(d) The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held;

(e) The surplus or deficit allocated to non-controlling interests of the controlled entity during the reporting period;

(f) Accumulated non-controlling interests of the controlled entity at the end of the reporting period; and

(g) Summarised financial information about the controlled entity (see paragraph AG10).

The Nature and Extent of Significant Restrictions

20. *An entity should disclose:*

(a) Significant restrictions in binding arrangements (e.g., statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the economic entity, such as:

(i) Those that restrict the ability of a controlling entity or its controlled entities to transfer cash or other assets to (or from) other entities within the economic entity.

(ii) Guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the economic entity.

(b) The nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the economic entity (such as when a controlling entity is obliged to settle liabilities of a controlled entity before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a controlled entity).

(c) ***The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.***

Nature of the Risks Associated with an Entity's Interests in Consolidated Structured Entities

21. ***An entity should disclose the terms of any binding arrangements that could require the controlling entity or its controlled entities to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., bank guarantee provided by a Local Body to its controlled entity under a binding agreement to provide financial support).***

22. ***If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a consolidated structured entity (e.g., purchasing assets of, or instruments issued by, the structured entity), the entity should disclose:***

    (a) ***The type and amount of support provided, including situations in which the controlling entity or its controlled entities assisted the structured entity in obtaining financial support; and***

    (b) ***The reasons for providing the support.***

23. ***If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity should disclose an explanation of the relevant factors in reaching that decision.***

24. ***An entity should disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.***

Consequences of Changes in a Controlling Entity's Ownership Interest in a Controlled Entity that do not Result in a Loss of Control

25. ***An entity should present a schedule that shows the effects on the net assets/equity attributable to owners of the controlling entity of any changes in its ownership interest in a controlled entity that do not result in a loss of control.***

Consequences of Losing Control of a Controlled Entity During the Reporting Period

26. ***An entity should disclose the gain or loss, if any, calculated in accordance with paragraph 52 of ASLB 35 and:***

    (a) The portion of that gain or loss attributable to measuring any investment retained in the former controlled entity at its fair value at the date when control is lost; and

    (b) The line item(s) in surplus or deficit in which the gain or loss is recognised (if not presented separately).

27 – 34. [Refer to Appendix C]

Interests in Joint Arrangements and Associates

35. ***An entity should disclose information that enables users of its financial statements to evaluate:***

    (a) The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 36 and 38); and

    (b) The nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 39).

Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates

36. ***An entity should disclose:***

(a) For each joint arrangement and associate that is material to the reporting entity:

(i) The name of the joint arrangement or associate;

(ii) The nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities);

(iii) The domicile and legal form of the joint arrangement or associate and the jurisdiction in which it operates; and

(iv) The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

(b) For each joint venture and associate that is material to the reporting entity:

(i) Whether the investment in the joint venture or associate is measured in accordance with ASLB 36;

(ii) Summarised financial information about the joint venture or associate as specified in paragraphs AG12 and AG13; and

(iii) [Refer to Appendix 1]

(c) Financial information as specified in paragraph AG16 about the entity's investments in joint ventures and associates that are not individually material:

(i) In aggregate for all individually immaterial joint ventures; and

(ii) *In aggregate for all individually immaterial associates. This aggregated information is to be disclosed separately from the aggregated information on joint ventures.*

37. [Refer to Appendix C]

38. ***An entity should also disclose:***

(a) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or binding arrangements between investors with joint control of, or significant influence over, a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends or similar distributions, or to repay loans or advances made by the entity.

(b) When the financial statements of a joint venture or associate are as of a date or for a period that is different from that of the entity:

(i) The date of the end of the reporting period of the financial statements of that joint venture or associate; and

(ii) The reason for using a different date or period.

(c) The unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate.

Risks Associated with an Entity's Interests in Joint Ventures and Associates

39. ***An entity should disclose:***

(a) Commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs AG17-AG19; and

(b) In accordance with ASLB 19, 'Provisions, Contingent Liabilities and Contingent Assets', unless the probability

of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.

Interests in Structured Entities that are not Consolidated

40. ***An entity should disclose information that enables users of its financial statements:***

 (a) To understand the nature and extent of its interests in structured entities that are not consolidated (paragraphs 43-45); and

 (b) To evaluate the nature of and changes in, the risks associated with its interests in structured entities that are not consolidated (paragraphs 46-48).

41. The information required by paragraph 40(b) includes information about an entity's exposure to risk from involvement that it had with structured entities that are not consolidated in previous periods (e.g., sponsoring the structured entity), even if the entity no longer has any involvement by way of binding arrangement with the structured entity at the reporting date.

42. [Refer to Appendix C]

Nature of Interests

43. ***An entity should disclose qualitative and quantitative information about its interests in structured entities that are not consolidated, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.***

44. ***If an entity has sponsored a structured entity that is not consolidated for which it does not provide information required by paragraph 46 (e.g., because it does not have an interest in the entity at the reporting date), the entity should disclose:***

(a) ***How it has determined which structured entities it has sponsored;***

(b) ***Revenue from those structured entities during the reporting period, including a description of the types of revenue presented; and***

(c) ***The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.***

45. An entity should present the information in paragraph 44(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs AG2-AG6).

Nature of Risks

46. ***An entity should disclose in tabular format, unless another format is more appropriate, a summary of:***

(a) ***The carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in structured entities that are not consolidated;***

(b) ***The line items in the balance sheet in which those assets and liabilities are recognised;***

(c) ***The amount that best represents the entity's maximum exposure to loss from its interests in structured entities that are not consolidated, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in structured entities that are not consolidated it should disclose that fact and the reasons; and***

(d) ***A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in structured entities that are not consolidated and the entity's maximum exposure to loss from those entities.***

47. ***If during the reporting period an entity has, without having an obligation under a binding arrangement to do so, provided***

financial or other support to a structured entity that is not consolidated in which it previously had or currently has an interest (for example, purchasing assets of, or instruments issued by, the structured entity), the entity should disclose:

(a) The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and

(b) The reasons for providing the support.

48. ***An entity should disclose any current intentions to provide financial or other support to a structured entity that is not consolidated, including intentions to assist the structured entity in obtaining financial support. Such current intentions include intentions to provide support as a result of obligations under binding arrangements and intentions to provide support where the entity has no obligation under a binding arrangement.***

Non-quantifiable Ownership Interests

49. ***An entity should disclose information that enables users of its financial statements to understand the nature and extent of any non-quantifiable ownership interests in other entities.***

50. ***To the extent that this information has not already been provided in accordance with this Standard, an entity should disclose, in respect of each non-quantifiable ownership interest that is material to the reporting entity:***

(a) The name of the entity in which it has an ownership interest; and

(b) The nature of its ownership interest in the entity.

51-57. **[Refer to Appendix D]**

58-62. [Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 38.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying this Standard.

Aggregation (paragraph 11)

AG2. An entity should decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

AG3. An entity may aggregate the disclosures required by this Standard for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in paragraph AG4, and does not obscure the information provided. An entity should disclose how it has aggregated its interests in similar entities.

AG4. An entity should present information separately for interests in:

(a) Controlled entities;

(b) Joint ventures;

(c) Joint operations;

(d) Associates; and

(e) Structured entities that are not consolidated.

AG5. In determining whether to aggregate information, an entity should consider quantitative and qualitative information about the different risk and benefit characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity should present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

AG6. Examples of aggregation levels within the classes of entities set out in paragraph AG4 that might be appropriate are:

(a) Nature of activities (e.g., a research and development entity, a gas distribution entity, a public transport entity, a river front development entity, a smart city development company).

(b) Service classification.

(c) Geography (e.g., city or region)

Interests in Other Entities (paragraph 7)

AG7. An interest in another entity refers to involvement by way of binding arrangements or otherwise that exposes the reporting entity to variability of benefits from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this Standard. That assessment should include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.

AG8. A reporting entity is typically exposed to variability of benefits from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability.

AG9. Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of benefits for the other entity but do not typically expose the reporting entity to variability of benefits from the performance of the other entity.

Summarised Financial Information for Controlled Entities, Joint Ventures and Associates (paragraphs 19 and 36)

AG10. For each controlled entity that has non-controlling interests that are material to the reporting entity, an entity should disclose:

(a) Dividends or similar distributions paid to non-controlling interests; and

(b) Summarised financial information about the assets, liabilities, surplus or deficit and cash flows of the controlled entity that enables users to understand the interest that non-controlling interests have in the economic entity's activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue and surplus or deficit.

AGI1. The summarised financial information required by paragraph AG10 (b) should be the amounts before inter-entity eliminations.

AG12. For each joint venture and associate that is material to the reporting entity, an entity should disclose:

(a) Dividends or similar distributions received from the joint venture or associate; and

(b) Summarised financial information for the joint venture or associate (see paragraphs AG14 and AG15) including, but not necessarily limited to:

(i) Current assets;

(ii) Non-current assets;

(iii) Current liabilities;

(iv) Non-current liabilities;

(v) Revenue;

(vi) Expenses;

(vii) Pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and

(viii) Surplus or deficit

AG13. In addition to the summarised financial information required by paragraph AG12, an entity should disclose for each joint venture that is material to the reporting entity the amount of:

(a) Cash and cash equivalents included in paragraph AG12(b)(i);

(b) Current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iii);

(c) Non-current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iv);

(d) Depreciation and amortisation;

(e) Interest revenue;

(f) Interest expense; and

(g) Income tax expense.

AG14. The summarised financial information presented in accordance with paragraphs AG12 and AG13 should be the amounts included in the ASLB financial statements of the joint venture or associate (and not the entity's share of those amounts).

AG15. An entity may present the summarised financial information required by paragraphs AG12 and AG13 on the basis of the joint venture's or associate's financial statements if:

(a) The entity measures its interest in the joint venture or associate in accordance with ASLB 36; and

(b) The joint venture or associate does not prepare ASLB financial statements and preparation on that basis would be impracticable or cause undue cost.

In that case, the entity should disclose the basis on which the summarised financial information has been prepared.

AG16. An entity should disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates. An entity should also disclose separately the aggregate amount of its share of those joint ventures' or associates':

(a) Revenue

(b) Expenses

(c) Pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations.

(d) Surplus or deficit

(e) An entity provides the disclosures separately for joint ventures and associates.

Commitments for Joint Ventures (paragraph 39(a))

AG17. An entity should disclose total commitments it has made but not recognised at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture) relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources.

AG18. Unrecognised commitments that may give rise to a future outflow of cash or other resources include:

(a) Unrecognised commitments to contribute funding or resources as a result of, for example:

(i) The constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).

(ii) Capital-intensive projects undertaken by a joint venture.

(iii) Unconditional purchase obligations, comprising procurement of equipment inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture.

(iv) Unrecognised commitments to provide loans or other financial support to a joint venture.

(v) Unrecognised commitments to contribute resources to a joint venture, such as assets or services.

(vi) Other non-cancellable unrecognised commitments relating to a joint venture.

(b) Unrecognised commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.

AG 19. The requirements and examples in paragraphs AG17 and AG18 illustrate some of the types of disclosure required by paragraph 27 of ASLB 20, '*Related Party Disclosures'.*

Interests in Structured Entities that are not Consolidated (paragraphs 40-48)

Structured Entities

AG20. A structured entity is an entity that has been designed so that the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity. In the case of entities such as departments or ministries where administrative arrangements or legislation are often the dominant factors in deciding who has control of an entity, a structured entity is an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity. In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity (which may be the case for some entities with profit objectives), a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Although binding arrangements frequently occur between entities, binding arrangements are not normally the dominant factor in determining who controls an entity. Therefore, the use of binding arrangements to determine the relevant activities of an entity may indicate the existence of a structured entity. Depending on the context, a structured entity could be (i) an entity for which most of the activities are predetermined, with the relevant activities limited in scope but directed through binding arrangements or (ii) an entity for which any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.

AG21. A structured entity often has some or all of the following features or attributes:

(a) Restricted activities.

(b) A narrow and well-defined objective, such as to carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.

(c) Insufficient net assets/equity to permit the structured entity to finance its activities without subordinated financial support.

(d) Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

AG22. Examples of entities that are regarded as structured entities include, but are not limited to:

(a) A partnership between a Local Body and a private sector entity that is not a joint venture, being a partnership established and directed by binding arrangements.

(aA) A joint venture between a Local Body and their controlled entities.

(b)-(d) [Refer to Appendix C].

AG23. The mere fact that a Local Body provides funding to another entity does not make that entity a structured entity. Nor is an entity that is controlled by voting rights a structured entity simply because, for example, it receives funding from third parties following a restructuring.

Nature of Risks from Interests in Structured Entities that are not Consolidated (paragraphs 46-48)

AG24. In addition to the information required by paragraphs 46-48, an entity should disclose additional information that is necessary to meet the disclosure objective in paragraph 40 (b).

AG25. Examples of additional information that, depending on the circumstances, might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in a structured entity that is not consolidated are:

(a) The terms of an arrangement that could require the entity to provide financial support to a structured entity that is not consolidated (e.g., credit rating triggers associated with obligations to provide financial support), including:

   (i) A description of events or circumstances that could expose the reporting entity to a loss.

   (ii) Whether there are any terms that would limit the obligation.

   (iii) Whether there are any other parties that provide financial support and, if so, how the reporting entity's obligation ranks with those of other parties.

(b) Losses incurred by the entity during the reporting period relating to its interests in structured entities that are not consolidated.

(c) The types of revenue the entity received during the reporting period from its interests in structured entities that are not consolidated.

(d) Whether the entity is required to absorb losses of a structured entity that is not consolidated before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the structured entity that is not consolidated.

(e) Information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in structured entities that are not consolidated.

(f) Any difficulties a structured entity that is not consolidated has experienced in financing its activities during the reporting period.

(g) In relation to the funding of a structured entity that is not consolidated, the forms of funding (e.g., commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analysis of the assets and funding of a structured entity if the structured entity has longer-term assets funded by shorter-term funding.

Appendix B

[Refer to Appendix 1]

Appendix C

Guidance for Investment Entities[5]

This appendix is not an integral part of the ASLB 38.

C1. To meet the objective in paragraph 1, an entity should disclose the significant judgements and assumptions it has made in determining that it meets the definition of an investment entity, if applicable. (paragraph C3 of this Appendix)

C2. ***This Standard does not apply to an entity's separate financial statements to which ASLB 34, 'Separate Financial Statements', applies. However, an investment entity that prepares financial statements in which all of its controlled entities are measured at fair value through surplus or deficit in accordance with paragraph C3 of Appendix C of ASLB 35, 'Consolidated Financial Statements' should present the disclosures relating to investment entities required by this Standard.***

Investment Entity Status

C3. ***When a controlling entity determines that it is an investment entity in accordance with ASLB 35, the investment entity should disclose information about significant judgments and assumptions it has made in determining that it is an investment entity. An investment entity is not required to disclose this information if it has all of the characteristics in paragraph C8 of Appendix C of ASLB 35.***

C4. ***When an entity becomes, or ceases to be, an investment entity, it should disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity should disclose the effect of the change of status on the financial statements for the period presented including:***

[5] The concept of Investment entity may not be relevant for local bodies in India in current scenario. Therefore, all the provisions pertaining to Investment entity have been moved to this Appendix.

(a) The total fair value, as of the date of change of status, of the controlled entities that cease to be consolidated;

(b) The total gain or loss, if any, calculated in accordance with relevant paragraph C11 of Appendix C of ASLB 35; and

(c) The line item (s) in surplus or deficit in which the gain or loss is recognised (if not presented separately).

Interests in Investment Entities (i.e., Unconsolidated Controlled Entities)

C5. *An investment entity that, in accordance with ASLB 35 is required to apply the exception to consolidation and instead account for its investment in a controlled entity at fair value through surplus or deficit should disclose that fact.*

C6. *For each unconsolidated controlled entity, an investment entity should disclose:*

(a) The controlled entity's name;

(b) The domicile and legal form of the controlled entity and the jurisdiction in which it operates; and

(c) The proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.

C7. *If an investment entity is the controlling entity of another investment entity, the controlling entity should also provide the disclosures in paragraph C5(a)-(c) for investments that are controlled by its controlled investment entity. The disclosure may be provided by including, in the financial statements of the controlling entity, the financial statements of the controlled entity (or controlled entities) that contain the above information.*

C8. *An investment entity should disclose:*

(a) The nature and extent of any significant restrictions arising from binding arrangements (e.g., resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an

unconsolidated controlled entity to transfer funds to the investment entity in the form of cash dividends, or similar distributions, or to repay loans or advances made to the unconsolidated controlled entity by the investment entity; and

(b) ***Any current commitments or intentions to provide financial or other support to an unconsolidated controlled entity, including commitments or intentions to assist the controlled entity in obtaining financial support.***

C9. ***If, during the reporting period, an investment entity or any of its controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated controlled entity (e.g., purchasing assets of, or instruments issued by, the controlled entity or assisting the controlled entity in obtaining financial support), the entity should disclose:***

(a) ***The type and amount of support provided to each unconsolidated controlled entity; and***

(b) ***The reasons for providing the support.***

C10. ***An investment entity should disclose the terms of any binding arrangements that could require the entity or its unconsolidated controlled entities to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).***

C11. ***If during the reporting period an investment entity or any of its unconsolidated controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated, structured entity (e.g., securitisation vehicles, asset backed financings and some investment funds) that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity should***

disclose an explanation of the relevant factors in reaching the decision to provide that support.

C12. ***A controlling entity that controls an investment entity and is not itself an investment entity, should disclose in its consolidated financial statements, the information required by paragraphs C5-C11 of this Appendix in respect of such unconsolidated controlled entities.***

C13. An investment entity need not provide the disclosures required by paragraphs 36(b)-36(c).

C14. An investment entity need not provide the disclosures required by paragraph 40 for a structured entity that it controls but which is not consolidated, and for which it presents the disclosures required by paragraphs C5-C11 of this Appendix.

Appendix D

Guidance for Controlling Interests Acquired with the Intention of Disposal[6]

This appendix is not an integral part of the ASLB 38.

D1. To meet the objective in paragraph 1, an entity should disclose the information about its interests in controlling interests acquired with the intention of disposal. (paragraphs D2–D8 of this Appendix)

D2. ***An entity, other than an investment entity, should disclose information regarding its interest in a controlled entity when, at the point at which control arose, the entity had the intention of disposing of that interest and, at the reporting date, it has an active intention to dispose of that interest.***

D3. There are a number of situations in which an entity may obtain control of another entity, but where the entity has an active intention to dispose of all or part of its controlling interest in the near future.

D4. Because of a Local Body's broad responsibility for the economic well-being of a jurisdiction it may intervene to prevent the consequences of failure of an entity. Such interventions may lead to a Local Body obtaining control of another entity, although it has no intention of maintaining control over that entity. Rather, its intention may be to sell, or otherwise dispose of, its interest in the controlled entity. If the other entity needs to be restructured to facilitate disposal the restructuring can occur over a period of one or more years and the Local Body may retain some residual assets or liabilities at the end of the process. The consolidation of such controlled entities for the reporting periods in which control is present, can have a significant impact on the consolidated financial statements. The obtaining of control as a result of interventions to prevent failure is most likely to occur in the context of local bodies, but could also occur in the case of entities.

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[6] The concept of Controlling Interests acquired with the Intention of Disposal may not be relevant for local bodies in India in current scenario. Therefore, all the provisions pertaining to Controlling Interests acquired with the Intention of Disposal have been moved to this Appendix.

D5. An entity may also acquire a controlling interest in another entity, with the intention of disposing of all or part of that interest, in implementing a Local Body's policy objectives. For example, a Local Body may direct an entity to acquire certain interests in other entities for the purpose of redistribution.

D6. ***An entity should disclose the following information in the notes in respect of each controlled entity referred to in paragraph D2 of this Appendix:***

(a) The name of the controlled entity and a description of its key activities;

(b) The rationale for the acquisition of the controlling interest and the factors considered in determining that control exists;

(c) The impact on the consolidated financial statements of consolidating the controlled entity including the effect on assets, liabilities, revenue, expenses and net assets/equity; and

(d) The current status of the approach to disposal, including the expected method and timing of disposal.

D7. ***The disclosures required by paragraph D6 of this Appendix should be provided at each reporting date until the entity disposes of the controlling interest or ceases to have the intention to dispose of that interest. In the period in which the entity disposes of the controlling interest or ceases to have the intention to dispose of the controlling interest it should disclose:***

(a) The fact that there has been a disposal or change of intention and

(b) The effect of the disposal or change of intention on the consolidated financial statements.

D8. ***Where other disclosures required by this Standard or other ASLBs would provide information relevant to paragraphs D6 or D7 a cross-reference to those other disclosures should be provided.***

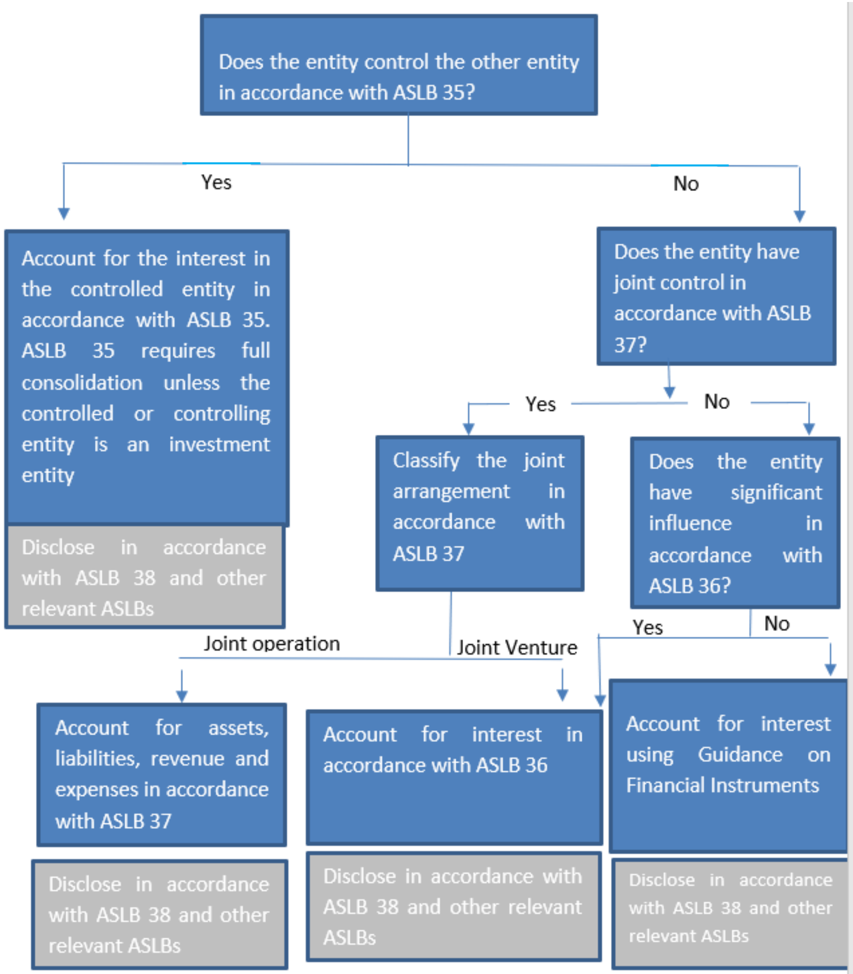
Implementation Guidance

This guidance accompanies, but is not part of, ASLB 38.

Nature of Relationship with Another Entity

IG1. The diagram below summarises the applicability of ASLB 38 in various types of involvement with another entity.

Flowchart 1: Forms of Involvement with Other Parties



Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 38 and the corresponding International Public Sector Accounting Standard (IPSAS) 38, 'Disclosure of Interests in Other Entities'.

Comparison with IPSAS 38, '*Disclosure of Interests in Other Entities*'

1. Different terminologies have been used in the ASLB 38 as compared to corresponding IPSAS 38, e.g., terms 'entity' and 'balance sheet' have been used in ASLB 38 in place of 'public sector entity' and 'statement of financial position'.

2. Paragraph 5A pertaining to applicability of ASLBs has been inserted in ASLB 38 in line with other issued ASLBs.

3. The following paragraphs of IPSAS 38 have been deleted. In order to maintain consistency with the corresponding IPSAS 38, the paragraph numbers have been retained:

   (i) The following concepts that may not be relevant for Local Bodies in India in the current scenario but may be relevant in future have been shifted to appendices (which are not an integral part of ASLB 38) and a similar explanation has also been provided in the footnote appended to Appendices:

      a) Paragraphs 4(b)(ii), 9(a)(iii), 15-16, 27-34, 37 and 42 of IPSAS 38 pertaining to the concept of 'investment entities' have been shifted from the main Standard to Appendix C namely '*Guidance for Investment Entities*'.

      b) Paragraphs 9(b)(v) and 51-57 of IPSAS 38 pertaining to the concept of 'controlling interests acquired with the intention of disposal' have been shifted from the main Standard to Appendix D namely '*Guidance for Controlling Interest Acquired with the Intention of Disposal*'.

(ii) Paragraph 4(d) provided the reference to the Guidance on '*Financial Instruments*' that is yet to be formulated/ issued. The clarification on obtaining guidance with regard to the above has been incorporated in the footnote.

(iii) Paragraphs 58-60 pertaining to transitional provisions have been deleted as they are not relevant.

(iv) Paragraphs 61-62 pertaining to effective date have been deleted as ASLB 38 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

4. Paragraphs 5-6 appear as 'Deleted' in IPSAS 38. In order to maintain consistency with paragraph numbers of IPSAS 38, the paragraph numbers have been retained in ASLB 38.

5. The following paragraphs of IPSAS 38 have been amended to make them more relevant in the context of Local Bodies in India:

(i) An investment in associate or joint venture should be accounted for in accordance with ASLB 36 read together with ASLB 34 at cost or in accordance with *Guidance on Financial Instruments* (equity method not permitted in this regard). (Paragraphs 4(d)(i), 36(b), 38, AG14 and AG16)

(ii) Some examples have been deleted/modified to make them more relevant in the context of Local Bodies in India. (Paragraphs 21, AG6-9 & AG22)

6. Consequential changes resulting from the above departures have been made in ASLB 38.

7. Appendix B containing amendments to other IPSASs has been deleted. The consequential amendment in other already issued ASLBs will be taken up while undertaking the project of revision of ASLBs.

8. Implementation guidance has been inserted to clarify the applicability of ASLB 38 in various types of involvement with another entity.

Contents

Accounting Standard for Local Bodies (ASLB) 40

Entity Combinations

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 40, *'Entity Combinations'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about an entity combination and its effects. To accomplish that, this Standard establishes principles and requirements for how:

   (a) A reporting entity classifies an entity combination as an amalgamation or an acquisition;

   (b) A resulting entity recognises and measures in its financial statements the identifiable assets received, the liabilities assumed and any non-controlling interest in an amalgamation;

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

(c) A resulting entity recognises and measures components of net assets/ equity and other adjustments recognised in an amalgamation;

(d) An acquirer recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation;

(e) An acquirer recognises and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and

(f) A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of an entity combination.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for entity combinations.***

2A. ***This Standard applies to all entities described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[3].***

3. ***This Standard applies to a transaction or other event that meets the definition of an entity combination. This Standard does not apply to:***

   (a) ***The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.***

   (b) ***The acquisition or receipt of an asset or a group of assets (and any related liabilities) that does not constitute an operation. In such cases an entity should identify and recognise the individual identifiable assets acquired or received (including those assets that meet the definition of, and recognition criteria for, intangible assets in ASLB 31, 'Intangible Assets') and liabilities assumed. Such a transaction or event does not give rise to goodwill.***

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

(c) ***The assumption of a liability or a group of liabilities that does not constitute an operation. In such cases an entity should identify and recognise the individual liabilities assumed.***

4. ***The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in Appendix C to ASLB 35, 'Consolidated Financial Statements', of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.***

Definitions

5. ***The following terms are used in this Standard with the meanings specified:***

An entity combination is the bringing together of separate operations into one entity.

General Definitions Related to All Entity Combinations

For the purposes of this Standard, equity interests is used broadly to mean ownership interests of investor-owned entities.

An asset is identifiable if it either:

(a) ***Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or***

(b) ***Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.***

An operation is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.

For the purposes of this Standard, owners is used broadly to include any party with quantifiable ownership interests in an

operation. This includes, but is not limited to, holders of equity interests of investor-owned entities.

An entity combination under common control is an entity combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the entity combination.

Definitions Related to Amalgamations

An amalgamation gives rise to a resulting entity and is either:

(a) *An entity combination in which no party to the combination gains control of one or more operations; or*

(b) *An entity combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.*

(Paragraph AG1 provides additional guidance.)

The amalgamation date is the date on which the resulting entity obtains control of the combining operations.

A combining operation is an operation that combines with one or more other operations to form the resulting entity in an amalgamation.

A resulting entity is the entity that is the result of two or more operations combining in an amalgamation (paragraph AG1 provides additional guidance).

Definitions Relating to Acquisitions

An acquired operation is the operation that the acquirer gains control of in an acquisition.

An acquirer is the entity that gains control of one or more operations in an acquisition.

An acquisition is an entity combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.

The acquisition date is the date on which the acquirer gains control of the acquired operation.

Contingent consideration is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognised.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards.

Identifying an Entity Combination

6. ***An entity should determine whether a transaction or other event is an entity combination by applying the definitions in this Standard, which requires that the assets and liabilities constitute an operation. If the assets and liabilities do not constitute an operation, the entity should account for the transaction or other event in accordance with other ASLBs. Paragraphs AG2–AG9 provide guidance on identifying an entity combination.***

Classification of Entity Combinations

7. ***If no party to an entity combination gains control of one or more operations as a result of the combination, the combination should be classified as an amalgamation. Paragraphs AG10–AG18 provide guidance on determining whether one party to an entity combination gains control of one or more operations as a result of that combination.***

8. ***If one party to an entity combination gains control of one or more operations as a result of the combination, an entity should consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition. A combination in which one party gains control of***

one or more operations should be classified as an acquisition, unless it has the economic substance of an amalgamation.

9. ***In determining the classification of the entity combination, an entity considers whether the resulting accounting treatment of the combination provides information that meets the objectives of financial reporting and that satisfies the qualitative characteristics (QCs). To assess the economic substance of the combination, an entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13. These indicators, individually or in combination, will usually provide evidence that the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation. Paragraphs AG19–AG39 provide additional guidance.***

10. An analysis of the indicators relating to consideration and to the decision- making process in paragraphs 12–13 will usually produce a conclusive result and provide sufficient evidence about the economic substance of the entity combination to determine whether the combination is an amalgamation. In such circumstances, the resulting classification and the associated accounting treatment will ensure that users have access to information that meets the objectives of financial reporting and that satisfies the QCs.

11. In exceptional circumstances, after applying the indicators in paragraphs 12–13, the results may be inconclusive or may not provide sufficient evidence about the economic substance of the entity combination. In such circumstances, an entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the QCs, having regard to paragraph 14. Paragraphs AG40–AG41 provide additional guidance.

Indicators that May Provide Evidence that the Combination is an Amalgamation

Indicators Relating to Consideration

12. The following indicators may provide evidence that the combination is an amalgamation:

(a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement (paragraphs AG27–AG28 provide additional guidance);

(b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation (paragraphs AG29–AG30 provide additional guidance); or

(c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity (paragraph AG31 provides additional guidance).

Indicators Relating to the Decision-Making Process

13. The following indicators may provide evidence that the combination is an amalgamation:

(a) An entity combination is imposed by a third party without any party to the combination being involved in the decision-making process (paragraphs AG32–AG35 provide additional guidance);

(b) [Refer to Appendix 1]; or

(c) An entity combination under common control occurs (paragraphs AG37–AG39 provide additional guidance).

Additional matters to be taken into account where the indicators relating to consideration and the decision-making process do not provide sufficient evidence to determine whether the combination is an amalgamation

14. The analysis of the indicators relating to consideration and the decision-making process may, in exceptional circumstances, produce inconclusive results or not provide sufficient evidence to determine whether the combination is an amalgamation, based on the economic substance of the entity combination and the indicators in paragraphs 12–13. In such circumstances, an entity considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting. Paragraphs AG42–AG46 provide additional guidance. An entity also

considers which classification and resulting accounting treatment would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. Paragraphs AG47–AG50 provide additional guidance.

Accounting for Amalgamations

15. ***A resulting entity should account for each amalgamation by applying the modified pooling of interests method of accounting.***

The Modified Pooling of Interests Method of Accounting

16. Applying the modified pooling of interests method of accounting requires:

    (a) Identifying the resulting entity;

    (b) Determining the amalgamation date;

    (c) Recognising and measuring the identifiable assets received, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in ASLBs; and

    (d) Recognising and measuring the components of net assets/equity and other adjustments from an amalgamation.

Identifying the Resulting Entity

17. ***For each amalgamation, a resulting entity should be identified.***

18. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." The resulting entity should thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation.

Determining the Amalgamation Date

19. ***The resulting entity should identify the amalgamation date, which is the date on which it obtains control of the combining operations.***

20. The date on which the resulting entity obtains control of the combining operations may be the date on which the resulting entity receives the assets and assumes the liabilities of the combining operations. It is possible that the resulting entity will not receive legal title to the assets or assume legal responsibility for the liabilities of the combining operations. In these circumstances, the resulting entity will often obtain control of the assets and liabilities of the combining operations on the date on which responsibility for the assets and liabilities is formally delegated to the resulting entity. However, the resulting entity might obtain control on a different date. For example, legislation or a written agreement may provide that the resulting entity obtains control of the assets and liabilities of the combining operations on a specified date. A resulting entity should consider all pertinent facts and circumstances in identifying the amalgamation date.

Recognising and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

Recognition Principle

21. ***As of the amalgamation date, the resulting entity should recognise the identifiable assets, liabilities and any non-controlling interests that are recognised in the financial statements of the combining operations as of the amalgamation date. Recognition of identifiable assets and liabilities received is subject to the conditions specified in paragraphs 22–23.***

Recognition Conditions

22. ***The effects of all transactions between the combining operations are eliminated in preparing the financial statements of the resulting entity (paragraphs AG51–AG52 provide related application guidance).***

23. To qualify for recognition as part of applying the modified pooling of interests method, the identifiable assets and liabilities must meet the definitions of assets and liabilities in the '*Conceptual Framework for General Purpose Financial Reporting by Local Bodies*' at the

amalgamation date. For example, costs that the resulting entity expects, but is not obliged, to incur in the future to effect its plan to exit an activity of a combining operation or to terminate the employment of or relocate a combining operation's employees are not liabilities at the amalgamation date. Therefore, the resulting entity does not recognise those costs as part of applying the modified pooling of interests method. Instead, the resulting entity recognises those costs in its post-combination financial statements in accordance with other ASLBs.

Classifying or Designating Assets and Liabilities in an Amalgamation

24. ***At the amalgamation date, the resulting entity should classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining operations. A resulting entity should not adopt different classifications or designations on initial recognition, even if this is permitted by other ASLBs.***

25. In some situations, ASLBs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. In that case, the resulting entity should make the classifications or designations on the basis of the classifications or designations previously applied by the combining operations. For example:

    (a) Classification of particular financial assets and liabilities and their measurement thereof in accordance with Guidance on '*Financial Instruments*'[4]

    (b)-(c) [Refer to Appendix 1].

Measurement Principle

26. ***The resulting entity should measure the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirements of paragraph 27 (paragraphs AG53–AG54 provide related application guidance).***

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[4] Guidance on 'Financial Instruments' yet to be formulated/issued, till then guidance may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

27. ***As of the amalgamation date, the resulting entity should adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies.***

28. The modified pooling of interests method results in a single combined resulting entity. A single uniform set of accounting policies, consistent with the requirements of ASLBs, is adopted by that entity, and the carrying amounts of the identifiable assets and liabilities of the combining operations are adjusted, where required, to conform to those accounting policies.

29. The resulting entity should measure any non-controlling interests in a combining operation at their carrying amounts in the financial statements of that combining operation as of the amalgamation date, adjusted for the non-controlling interests' proportionate share of the adjustments made in accordance with paragraph 27.

30. Paragraphs 33–35 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

31. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 32–35 specify both the particular items for which exceptions are provided and the nature of those exceptions. The resulting entity should account for those items by applying the requirements in paragraphs 32–35, which will result in some items being:

    (a) Recognised either by applying recognition conditions in addition to those in paragraphs 22–23 or by applying the requirements of other ASLBs, with results that differ from applying the recognition principle and conditions.

    (b) Measured at an amount other than their amalgamation date carrying amounts.

    Exception to the Recognition Principle

    Licenses and similar rights previously granted by one combining operation to another combining operation

32. A license or similar right, previously granted by one combining operation to another combining operation and recognised as an intangible asset by the recipient combining operation should be recognised by the resulting entity as an intangible asset. The license or similar right should not be eliminated in accordance with paragraph 22 (paragraphs AG55–AG56 provide related application guidance).

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation)

33. [Refer to Appendix 1]

34. The resulting entity should recognise and measure any remaining taxation items included in or arising from an amalgamation[5].

Employee Benefits

35. The resulting entity should recognise and measure a liability (or asset, if any) related to the combining operation's employee benefit arrangements in accordance with ASLB 39, '*Employee Benefits*'.

Recognising and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

36. ***An amalgamation does not give rise to goodwill (paragraphs AG59–AG60 provide related application guidance).***

37. ***The resulting entity should recognise within net assets/equity amounts equal and opposite to the following items:***

    (a) ***The carrying amounts of the combining operations' assets;***

    (b) ***The carrying amounts of the combining operations' liabilities; and***

    (c) ***The carrying amounts of the combining operations' non-controlling interests.***

[5] The guidance with regard to income taxes may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

38. ***The resulting entity should recognise within net assets/equity the corresponding adjustments in respect of:***

(a) ***The elimination of transactions between combining operations in accordance with paragraph 22;***

(b) ***Adjustments made to the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies, in accordance with paragraph 27; and***

(c) ***Adjustments made in respect of the exceptions to the recognition and/or measurement principles, in accordance with paragraphs 32–35.***

39. ***The resulting entity may present the amounts recognised within net assets/equity in accordance with paragraphs 37 and 38 as either:***

(a) ***A single opening balance; or***

(b) ***As separate components of net assets/equity.***

Measurement Period

40. ***If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the resulting entity should report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity should retrospectively adjust the provisional amounts recognised at the amalgamation date to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the resulting entity should also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the amalgamation 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 resulting entity***

receives the information it was seeking about facts and circumstances that existed as of the amalgamation date or learns that more information is not obtainable. However, the measurement period should not exceed one year from the amalgamation date.

41. The measurement period is the period after the amalgamation date during which the resulting entity may adjust the provisional amounts recognised for an amalgamation. The measurement period provides the resulting entity with a reasonable time to obtain the information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations as of the amalgamation date in accordance with the requirements of this Standard. The information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations will generally be available at the amalgamation date. However, this may not be the case where combining operations have previously prepared their financial statements using different accounting policies.

42. The resulting entity recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by adjusting components of net assets/equity recognised in accordance with paragraphs 37–38. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the resulting entity might have assumed a liability to pay damages related to an accident in one of the combining operation's facilities, part or all of which are covered by the combining operation's liability insurance policy. If the resulting entity obtains new information during the measurement period about the carrying amount of that liability, the adjustment to the gain or loss resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to the gain or loss resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

43. During the measurement period, the resulting entity should recognise adjustments to the provisional amounts as if the accounting for the amalgamation had been completed at the amalgamation date. Thus,

the resulting entity should revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation or amortisation recognised in completing the initial accounting.

44. After the measurement period ends, the resulting entity should revise the accounting for an amalgamation only to correct an error in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

Amalgamation-Related Costs

45. Amalgamation-related costs are costs the resulting entity or combining operations incur to effect an amalgamation. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs; and any costs of registering and issuing debt and equity securities. The resulting entity and combining operations should account for amalgamation-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 should be recognised in accordance with Guidance on '*Financial Instruments*'.

Subsequent Measurement and Accounting

46. In general, a resulting entity should subsequently measure and account for assets and liabilities received and equity instruments issued in an amalgamation in accordance with other applicable ASLBs for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets received and liabilities assumed or incurred in an amalgamation:

    (a) Licenses and similar rights previously granted by one combining operation to another combining operation;

    (b) Transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that change as a result of an amalgamation; and

    (c) Income taxes (where not included in the terms of the amalgamation).

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation

47. A license or similar right, previously granted by one combining operation to another combining operation and recognised as an intangible asset should be amortised over the remaining period of the binding arrangement in which the right was granted. As per the requirement of ASLB 31, '*Intangible Assets*', it is presumed that the life of an intangible asset will not exceed ten years. The resulting entity should test the right for impairment whenever there is an indication that the right may be impaired. A resulting entity that subsequently sells this license or similar right to a third party should include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

48. A transfer, concessionary loan or similar benefit, previously received by a combining operation on the basis of criteria that change as a result of an amalgamation, should be reassessed prospectively in accordance with other ASLBs (paragraphs AG61–AG63 provide related application guidance).

49. [Refer to Appendix 1]

Presentation of Financial Statements

50. ***Except where a resulting entity is not a new entity following an entity combination, the resulting entity's first set of financial statements following the amalgamation should comprise:***

    a) An opening balance sheet as of the amalgamation date;

    b) A balance sheet as at the reporting date;

    c) A statement of income and expenditure for the period from the amalgamation date to the reporting date;

    d) [Refer to Appendix 1];

    e) A cash flow statement for the period from the amalgamation date to the reporting date;

f) ***If the entity makes publicly available its approved budget, a comparison of budget and actual amounts for the period from the amalgamation date to the reporting date, either as a separate additional financial statement or as a budget column in the financial statements; and***

g) ***Notes, comprising a summary of significant accounting policies and other explanatory notes.***

51. ***Where a resulting entity is not a new entity following an entity combination, the resulting entity should disclose:***

a) ***The amounts recognised of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity;***

b) ***Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and***

c) ***Any adjustments made to eliminate transactions between the combining operations.***

52. Subject to the requirements in paragraphs 54 and 56, the resulting entity is permitted but not required to present financial statements for periods prior to the amalgamation date (paragraphs AG64–AG65 provide related application guidance). Where a resulting entity elects to present financial statements for periods prior to the amalgamation date, it should disclose the information required by paragraph 54(g).

Disclosures

53. ***The resulting entity should disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.***

54. To meet the objective in paragraph 53, the resulting entity should disclose the following information for each amalgamation that occurs during the reporting period:

(a) The name and a description of each combining operation.

(b) The amalgamation date.

(c) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.

(d) The amounts recognised as of the amalgamation date for each major class of assets and liabilities transferred.

(e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date:

   (i) To eliminate the effect of transactions between combining operations in accordance with paragraph 22; and

   (ii) To conform to the resulting entity's accounting policies in accordance with paragraph 27.

(f) An analysis of net assets/equity, including any components that are presented separately, and any significant adjustments such as revaluation surpluses or deficits, recognised in accordance with paragraphs 37–38.

(g) If a resulting entity elects to present financial statements for periods prior to the amalgamation date in accordance with paragraph 52, the resulting entity should disclose the following information for each combining operation:

   (i) A balance sheet as at the end of the prior period(s);

   (ii) A statement of income and expenditure for the prior period(s);

   (iii) [Refer to Appendix 1];

   (iv) A cash flow statement for the prior period(s); and

   (v) Notes, comprising a summary of significant accounting policies and other explanatory notes.

The resulting entity should not restate this information, but should disclose the information on the same basis as used in the combining operations' financial statements. The resulting entity should disclose the basis on which this information is presented.

(h) If, at the time the financial statements of the resulting entity are authorised for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity should disclose the following information:

(i) The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue should be analysed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of ASLB 1, '*Presentation of Financial Statements*'. The amounts of expense should be analysed using a classification based on the nature of expenses in accordance with paragraph 109 of ASLB 1.

(ii) The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.

(iii) The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

The resulting entity is not required to disclose this information where it has elected to present financial statements for periods prior to the amalgamation date as specified in sub-paragraph (g) above.

55. ***The resulting entity should disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.***

56. To meet the objective in paragraph 55, the resulting entity should disclose the following information:

(a) If the initial accounting for an amalgamation is incomplete (see paragraph 40) for particular assets or liabilities, and the amounts recognised in the financial statements for the amalgamation thus have been determined only provisionally:

(i) The reasons why the initial accounting for the amalgamation is incomplete;

(ii) The assets or liabilities for which the initial accounting is incomplete; and

(iii) The nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 43.

(b) [Refer to Appendix 1]

57. If the specific disclosures required by this and other ASLBs do not meet the objectives set out in paragraphs 53 and 55, the resulting entity should disclose whatever additional information is necessary to meet those objectives.

Accounting for Acquisitions

58. ***An acquirer should account for each acquisition by applying the acquisition method of accounting.***

The Acquisition Method of Accounting

59. Applying the acquisition method of accounting requires:

(a) Identifying the acquirer;

(b) Determining the acquisition date;

(c) Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation; and

(d) Recognising and measuring goodwill, a gain or a loss from an acquisition.

Identifying the Acquirer

60. ***For each acquisition, the party to the combination that gains control of one or more operations should be identified as the acquirer.***

61. The party to the combination that gains control of one or more operations is identified when determining the classification of the entity combination in accordance with paragraphs 7, 8 and AG10–AG18.

Determining the Acquisition Date

62. ***The acquirer should identify the acquisition date, which is the date on which it obtains control of the acquired operation.***

63. The date on which the acquirer obtains control of the acquired operation is generally the date on which the acquirer legally transfers the consideration and/or acquires the assets and assumes the liabilities of the acquired operation—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 acquired operation on a date before the closing date. An acquirer should consider all pertinent facts and circumstances in identifying the acquisition date.

Recognising and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

Recognition Principle

64. ***As of the acquisition date, the acquirer should recognise, separately from any goodwill recognised, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 65 and 66.***

Recognition Conditions

65. 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 *Conceptual Framework for General Purpose Financial Reporting by Local Bodies* at the acquisition date, and be capable of being measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reporting. For example, costs the acquirer expects but is not obliged to incur in the

future to effect its plan to exit an activity of an acquired operation or to terminate the employment of or relocate an acquired operation's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other ASLBs.

66. 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 acquired operation (or its former owners) exchanged in the acquisition transaction rather than the result of separate transactions. The acquirer should apply the guidance in paragraphs 109–111 to determine which assets acquired or liabilities assumed are part of the exchange for the acquired operation and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable ASLBs.

67. The acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquired operation had not previously recognised as assets and liabilities in its financial statements. For example, the acquirer recognises the acquired identifiable intangible assets, such as patent, that the acquired operation did not recognise as assets in its financial statements because it developed them internally and charged the related costs to expense.

68. Paragraphs AG72–AG84 provide guidance on recognising operating leases and intangible assets. Paragraphs 76–82 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Acquisition

69. ***At the acquisition date, the acquirer should classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other ASLBs. The acquirer should make those classifications or designations on the basis***

of the terms of the binding arrangement (including contractual terms), economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

70. In some situations, ASLBs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. The acquirer should make the classifications or designations on the basis of the pertinent conditions as they exist at the acquisition date. For example:

(a) Classification of particular financial assets and liabilities and their measurement thereof in accordance with Guidance on '*Financial Instruments*';

(b)-(c) [Refer to Appendix 1].

71. This Standard provides following exception to the principle in paragraph 69 in case of:

(a) Classification of a lease arrangement as either an operating lease or a finance lease in accordance with ASLB 13, '*Leases'.*

(b) Classification of a contract as an insurance contract[6].

The acquirer should classify those binding arrangements on the basis of the terms and other factors at the inception of the binding arrangement (or, if the terms of the binding arrangement have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement Principle

72. ***The acquirer should measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.***

73. For each acquisition, the acquirer should measure at the acquisition date components of non-controlling interests in the acquired

[6] The guidance with regard to insurance contacts may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) Fair value; or

(b) The present ownership instruments' proportionate share in the recognised amounts of the acquired operation's identifiable net assets.

All other components of non-controlling interests should be measured at their acquisition-date fair values, unless another measurement basis is required by ASLBs.

74. Paragraphs 78–84 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

75. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 76–84 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer should account for those items by applying the requirements in paragraphs 76–84, which will result in some items being:

(a) Recognised either by applying recognition conditions in addition to those in paragraphs 65–66 or by applying the requirements of other ASLBs, with results that differ from applying the recognition principle and conditions.

(b) Measured at an amount other than their acquisition-date fair values.

Exception to the Recognition Principle

Contingent Liabilities

76. ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*', defines a contingent liability as:

(a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) A present obligation that arises from past events, but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

77. The requirements in ASLB 19 do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the acquirer should recognise as of the acquisition date a contingent liability assumed in an acquisition where consideration is transferred if it is a present obligation that arises from past events and its fair value can be measured reliably[7]. Therefore, contrary to ASLB 19, the acquirer recognises a contingent liability assumed in an acquisition where consideration is transferred at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph 115 provides guidance on the subsequent accounting for contingent liabilities.

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Acquisition)

78. [Refer to Appendix 1]

79. The acquirer should recognise and measure any remaining taxation items included in or arising from an acquisition.

Employee Benefits

80. The acquirer should recognise and measure a liability (or asset, if any) related to the acquired operation's employee benefit arrangements in accordance with ASLB 39.

[7] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.

Indemnification Assets

81. The seller in an acquisition 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 acquirer should 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. Therefore, 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 should recognise the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph AG88 provides related application guidance).

82. In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognised at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset should be recognised and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectibility of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 116 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the Measurement Principle

Reacquired Rights

83. The acquirer should measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Paragraphs AG79–AG80 provide related application guidance.

84. [Refer to Appendix 1] .

Recognising and Measuring Goodwill or a Gain from a Bargain Purchase

85. ***The acquirer should recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below, subject to the requirements of paragraph 86:***

(a) ***The aggregate of:***

(i) ***The consideration transferred measured in accordance with this Standard, which generally requires acquisition-date fair value (see paragraph 95);***

(ii) ***The amount of any non-controlling interest in the acquired operation measured in accordance with this Standard; and***

(iii) ***In an acquisition achieved in stages (see paragraphs 99–100), the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.***

(b) ***The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.***

86. ***The acquirer should recognise goodwill only to the extent that the acquisition will result in:***

(a) ***The generation of cash inflows (such as the acquisition of a cash-generating operation); and/or***

(b) A reduction in the net cash outflows of the acquirer.

An acquirer should recognise any further excess of (a) over (b) in paragraph 85 above as a loss in surplus or deficit. Paragraph AG93 provides related application guidance.

87. In an acquisition in which the acquirer and the acquired operation (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquired operation's equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity interests. If so, the acquirer should determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in an acquisition in which no consideration is transferred, the acquirer should use the acquisition-date fair value of the acquirer's interest in the acquired operation in place of the acquisition-date fair value of the consideration transferred (paragraph 85(a)(i)). Paragraph AG94 provides related application guidance.

Bargain Purchases

88. Occasionally in an entity combination classified as an acquisition, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 85(b) exceeds the aggregate of the amounts specified in paragraph 85(a). If that excess remains after applying the requirements in paragraph 90, the acquirer should recognise the resulting gain in surplus or deficit on the acquisition date. The gain should be attributed to the acquirer.

89. A bargain purchase might happen, for example, in an acquisition that is a forced sale in which the seller is acting under economic compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 76–84 may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.

90. Before recognising a gain on a bargain purchase, the acquirer should reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and should recognise any additional assets or liabilities that are identified in that review. The acquirer

should then review the procedures used to measure the amounts this Standard 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 acquired operation, if any;

(c) For an acquisition achieved in stages, the acquirer's previously held equity interest in the acquired operation; 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.

91. In the Local Body, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers consideration that is not approximately equal to the fair value of the acquired operation. Such circumstances include, but are not limited to:

(a) Compensated seizures of operations or entities; and

(b) The transfer of an operation to the acquirer by a donor for nominal consideration.

92. Where the economic substance of the entity combination is that of an acquisition, such non-exchange acquisitions are treated as bargain purchases and accounted for in accordance with paragraphs 88–90.

A Non-Exchange Acquisition Without the Transfer of Consideration

93. In the Local Body, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:

(a) Uncompensated seizures of operations or entities (also known as statutory acquisitions).

(b) The transfer of an operation to the entity by a donor for no consideration. Such transfers may take the form of a bequest, and

(c) The transfer of an operation to the entity where the operation has net liabilities. The entity may accept the transfer of net liabilities to prevent the cessation of the operation. Such transactions are sometimes known as “bailouts”.

94. Where the economic substance of the entity combination is that of an acquisition, the acquirer that obtains control of an acquired operation in a non-exchange transaction in which it transfers no consideration does not recognise goodwill. The acquirer recognises a gain or a loss in surplus or deficit in accordance with paragraph 86.

Consideration Transferred

95. The consideration transferred in an acquisition should be measured at fair value, which should 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 acquired operation and the equity interests issued by the acquirer.

96. The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or an operation of the acquirer). If so, the acquirer should remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognise the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the acquisition (for example, because the assets or liabilities were transferred to the acquired operation rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer should measure those assets and liabilities at their carrying amounts immediately before the acquisition date and should not recognise a gain or loss in surplus or deficit on assets or liabilities it controls both before and after the acquisition.

Contingent Consideration

97. The consideration the acquirer transfers in exchange for the acquired operation includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 95). The acquirer should recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired operation.

98. The acquirer should classify an obligation to pay contingent consideration that meets the definition of a financial instrument[8] as a financial liability[9] or as a component of net assets/equity on the basis of the definitions of an equity instrument[10] and a financial liability . The acquirer should classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 117 provides guidance on the subsequent accounting for contingent consideration.

An Acquisition Achieved in Stages

99. An acquirer sometimes obtains control of an acquired operation in which it held an equity interest immediately before the acquisition date. For example, on 31 December 20X1, Entity A holds a 35 percent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Standard refers to such a transaction as an acquisition achieved in stages, sometimes also referred to as a step acquisition.

100. In an acquisition achieved in stages, the acquirer should remeasure its previously held equity interest in the acquired operation at its acquisition-date fair value and recognise the resulting gain or loss, if any, in surplus or deficit or in net assets/equity, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquired operation in net

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[8] **Financial Instrument** is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

A **financial asset** is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

(i) to receive cash or another financial asset from another entity;

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

[9] **Financial Liability** is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

[10] An **equity Instrument** is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

assets/equity. If so, the amount that was recognised in net assets/equity should be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

100A. When a party to a joint arrangement (as defined in ASLB 37, '*Joint Arrangements'*) obtains control of an operation that is a joint operation (as defined in ASLB 37), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is an acquisition achieved in stages. The acquirer should therefore apply the requirements for an acquisition achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph 100. In doing so, the acquirer should remeasure its entire previously held interest in the joint operation.

Additional Guidance for Applying the Acquisition Method Where an Acquisition is Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances in Which no Consideration is Transferred

An Acquisition Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances not Involving the Transfer of Consideration

101. An acquirer sometimes obtains control of an acquired operation without transferring consideration. The acquisition method of accounting for an acquisition applies to those entity combinations. Such circumstances include:

(a) The acquired operation repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.

(b) Minority veto rights lapse that previously kept the acquirer from controlling an acquired operation in which the acquirer held the majority voting rights.

(c) The acquirer and acquired operation agree to combine their operations by contract alone. The acquirer transfers no consideration in exchange for control of an acquired operation and holds no quantifiable ownership interests in the acquired operation, either on the acquisition date or previously.

102. In an acquisition achieved by contract alone, the acquirer should attribute to the owners of the acquired operation the amount of the acquired operation's net assets recognised in accordance with this Standard. In other words, the quantifiable ownership interests in the acquired operation held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the quantifiable ownership interests in the acquired operation are attributed to the non-controlling interest.

Measurement Period

103. ***If the initial accounting for an acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer should report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer should 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. During the measurement period, the acquirer should 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 should not exceed one year from the acquisition date.***

104. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for an acquisition. The measurement period provides the

acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Standard:

(a) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired operation;

(b) The consideration transferred for the acquired operation (or the other amount used in measuring goodwill);

(c) In an acquisition achieved in stages, the equity interest in the acquired operation previously held by the acquirer; and

(d) The resulting goodwill, loss, or gain on a bargain purchase.

105. The acquirer should consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value measured at that date is likely to indicate an error in the provisional amount.

106. The acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of a decrease (increase) in goodwill. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquired operation's facilities, part or all of which are covered by the acquired operation's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a

change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

107. During the measurement period, the acquirer should recognise adjustments to the provisional amounts as if the accounting for the acquisition had been completed at the acquisition date. Thus, the acquirer should revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

108. After the measurement period ends, the acquirer should revise the accounting for an acquisition only to correct an error in accordance with ASLB 3.

Determining what is Part of the Acquisition Transaction

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

110. A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquired operation (or its former owners) before the acquisition, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:

(a) A transaction that in effect settles pre-existing relationships between the acquirer and acquired operation;

(b) A transaction that remunerates employees or former owners of the acquired operation for future services; and

(c) A transaction that reimburses the acquired operation or its former owners for paying the acquirer's acquisition-related costs.

Paragraphs AG99–AG106 provide related application guidance.

Acquisition-Related Costs

111. Acquisition-related costs are costs the acquirer incurs to effect an acquisition. 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 should 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 should be recognised in accordance with Guidance on '*Financial Instruments*'.

Subsequent Measurement and Accounting

112. ***In general, an acquirer should subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition in accordance with other applicable ASLBs or Guidance on 'Financial Instruments' for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition:***

(a) Reacquired rights;

(b) Contingent liabilities recognised as of the acquisition date;

(c) Indemnification assets;

(d) ***Contingent consideration; and***

(e) ***Income taxes (where not included in the terms of the acquisition).***

Paragraphs AG107–AG108 provide related application guidance.

Reacquired Rights

113. A reacquired right recognised as an intangible asset should be amortised over the remaining period of the binding arrangement in which the right was granted. As per the requirement of ASLB 31, '*Intangible Assets*', it is presumed that the life of an intangible asset will not exceed ten years. The resulting entity should test the right for impairment whenever there is an indication that the right may be impaired. An acquirer that subsequently sells a reacquired right to a third party should include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

114. A transfer, concessionary loan or similar benefit, previously received by an acquirer or an acquired operation on the basis of criteria that change as a result of an acquisition, should be reassessed prospectively in accordance with other ASLBs (paragraphs AG109–AG111 provide related application guidance).

Contingent Liabilities

115. After initial recognition and until the liability is settled, cancelled or expires, the acquirer should measure a contingent liability recognised in an acquisition at the higher of:

(a) The amount that would be recognised in accordance with ASLB 19; and

(b) The amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with ASLB 9, '*Revenue from Exchange Transactions*'.

This requirement does not apply to contracts accounted for in accordance with Guidance on '*Financial Instruments*'.

Indemnification Assets

116. At the end of each subsequent reporting period, the acquirer should 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 should derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Contingent Consideration

117. 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 paragraphs 103–107. However, changes resulting from events after the acquisition date, such as reaching a milestone on a research and development project is not measurement period adjustments. The acquirer should account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as a component of net assets/ equity should not be remeasured and its subsequent settlement should be accounted for within net assets/equity.

(b) Other contingent consideration that:

(i) Is within the scope of Guidance on '*Financial Instruments*' should be measured in accordance with Guidance on '*Financial Instruments*'.

(ii) Is not within the scope of Guidance on '*Financial Instruments*' should be measured at fair value at each reporting date and changes in fair value shall be recognised in surplus or deficit.

118. [Refer to Appendix 1]

Disclosures

119. ***The acquirer should disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:***

    (a) During the current reporting period; or

    (b) After the end of the reporting period but before the financial statements are authorised for issue.

120. To meet the objective in paragraph 119, the acquirer should disclose the following information for each acquisition that occurs during the reporting period:

    (a) The name and a description of the acquired operation.

    (b) The acquisition date.

    (c) The percentage of voting equity interests or equivalent acquired.

    (d) The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation including, where applicable, the legal basis for the acquisition.

    (e) A qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining the operations of the acquired operation and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

    (f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:

        (i) Cash;

        (ii) Other tangible or intangible assets, including an operation or controlled entity of the acquirer;

        (iii) Liabilities incurred, for example, a liability for contingent consideration; and

        (iv) Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.

(g) For contingent consideration arrangements and indemnification assets:

(i) The amount recognised as of the acquisition date;

(ii) A description of the arrangement and the basis for determining the amount of the payment; and

(iii) An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer should disclose that fact.

(h) For acquired receivables:

(i) The fair value of the receivables;

(ii) The gross amounts receivable in accordance with a binding arrangement; and

(iii) The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.

The disclosures should be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.

(i) The amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.

(j) For each contingent liability recognised in accordance with paragraph 77, the information required in paragraph 98 of ASLB 19. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer should disclose:

(i) The information required by paragraph 100 of ASLB 19; and

(ii) The reasons why the liability cannot be measured reliably.

(k) [Refer to Appendix 1]

(l) For transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the acquisition in accordance with paragraph 109:

(i) A description of each transaction;

(ii) How the acquirer accounted for each transaction;

(iii) The amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and

(iv) If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

(m) The disclosure of separately recognised transactions required by (l) should include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of income and expenditure in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised should also be disclosed.

(n) In an acquisition in which a loss is recognised in surplus or deficit (see paragraph 86):

(i) The amount of the loss recognised in accordance with paragraph 86 and the line item in the statement of income and expenditure in which the loss is recognised; and

(ii) A description of the reasons why the transaction resulted in a loss.

(o) In a bargain purchase (see paragraphs 88–90):

(i) The amount of any gain recognised in accordance with paragraph 88 and the line item in the statement of income and expenditure in which the gain is recognised; and

(ii) A description of the reasons why the transaction resulted in a gain.

(p) For each acquisition in which the acquirer holds less than 100 percent of the quantifiable ownership interests or equivalent in the acquired operation at the acquisition date:

(i) The amount of the non-controlling interest in the acquired operation recognised at the acquisition date and the measurement basis for that amount; and

(ii) For each non-controlling interest in an acquired operation measured at fair value, the valuation technique(s) and significant inputs used to measure that value.

(q) In an acquisition achieved in stages:

(i) The acquisition-date fair value of the equity interest in the acquired operation held by the acquirer immediately before the acquisition date; and

(ii) The amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquired operation held by the acquirer before the acquisition (see paragraph 100) and the line item in the statement of income and expenditure in which that gain or loss is recognised.

(r) The following information:

(i) The amounts of revenue and expense, and the surplus or deficit of the acquired operation since the acquisition date included in the consolidated statement of income and expenditure for the reporting period; and

(ii) The revenue and expense, and the surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this sub-paragraph is impracticable, the acquirer should disclose that fact and explain why the disclosure is impracticable. This Standard uses the term 'impracticable' with the same meaning as in ASLB 3.

121. For individually immaterial acquisitions occurring during the reporting period that are material collectively, the acquirer should disclose in aggregate the information required by paragraph 120(e)–(r).

122. If the acquisition date of an acquisition is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer should disclose the information required by paragraph 120 unless the initial accounting for the acquisition is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer should describe which disclosures could not be made and the reasons why they cannot be made.

123. ***The acquirer should disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to acquisitions that occurred in the period or previous reporting periods.***

124. To meet the objective in paragraph 123, the acquirer should disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

(a) If the initial accounting for an acquisition is incomplete (see paragraph 103) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the acquisition thus have been determined only provisionally:

(i) The reasons why the initial accounting for the acquisition is incomplete;

(ii) The assets, liabilities, quantifiable ownership interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and

(iii) The nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 107.

(b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

(i) Any changes in the recognised amounts, including any differences arising upon settlement;

(ii) Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

(iii) The valuation techniques and key model inputs used to measure contingent consideration.

(c) For contingent liabilities recognised in an acquisition, the acquirer should disclose the information required by paragraphs 97 and 98 of ASLB 19 for each class of provision.

(d) A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

(i) The gross amount and accumulated impairment losses at the beginning of the reporting period.

(ii) Additional goodwill recognised during the reporting period.

(iii) Adjustments related to income tax resulting from the subsequent recognition of amounts during the reporting period.

(iv) Goodwill derecognised during the reporting period.

(v) Impairment losses recognised during the reporting period in accordance with ASLB 26, '*Impairment of Cash-Generating Assets*'. (ASLB 26 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)

(vi) Net exchange rate differences arising during the reporting period in accordance with ASLB 4, '*The Effects of Changes in Foreign Exchange Rates*'.

(vii) Any other changes in the carrying amount during the reporting period.

(viii) The gross amount and accumulated impairment losses at the end of the reporting period.

(e) The amount and an explanation of any gain or loss recognised in the current reporting period that both:

(i) Relates to the identifiable assets acquired or liabilities assumed in an acquisition that was effected in the current or previous reporting period; and

(ii) Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

(f) [Refer to Appendix 1]

125. If the specific disclosures required by this and other ASLBs do not meet the objectives set out in paragraphs 119 and 123, the acquirer should disclose whatever additional information is necessary to meet those objectives.

126-134. [Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 40.

Definitions (see paragraph 5)

AG1. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." A resulting entity is not initially a party to the entity combination. A resulting entity may have the legal form of a new entity, or may retain the legal identity of one of the combining operations. However, a resulting entity usually has the economic substance of a new entity. In a combination in which one party to the combination gains control of one or more operations, and in which the economic substance is that of an amalgamation, the nature of the combination is usually that the resulting entity has the substance of a new entity.

Identifying an Entity Combination (see paragraph 6)

AG2. Paragraph 5 of this Standard defines an entity combination as "the bringing together of separate operations into one entity." The reference to one entity may be to a single entity or to an economic entity. Some entity reorganisations may involve more than one entity combination. The circumstances in which an entity combination might occur include:

(a) By mutual agreement; and

(b) By compulsion (for example by legislation).

AG3. Paragraph 5 of this Standard defines an operation as "an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services."

AG4. An operation consists of inputs and processes applied to those inputs that have the ability to create outputs. Although operations usually have outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as an operation. For the purposes of this standard, the three elements of an operation are defined as follows:

(a) **Input**: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

(b) **Process**: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

(c) **Output**: The result of inputs and processes applied to those inputs that provide, or have the ability to provide, goods and/or services.

AG5. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets and/or liabilities requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, an operation need not include all of the inputs or processes that the transferor used in operating that operation if the entity that receives the operation or operations is capable of continuing to produce outputs, for example, by integrating the operation with their own inputs and processes.

AG6. The nature of the elements of an operation varies by sector and by the structure of an entity's operations (activities), including the entity's stage of development. Established operations often have many different types of inputs, processes and outputs, whereas new operations often have few inputs and processes and sometimes only a single output (product). Nearly all operations also have liabilities, but an operation need not have liabilities.

AG7. An integrated set of activities and assets and/or liabilities in the development stage might not have outputs. In these cases, the entity that receives the operation should consider other factors to determine whether the set is an operation. 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 service recipients that will receive the outputs.

Not all of those factors need to be present for a particular integrated set of activities and assets and/or liabilities in the development stage to qualify as an operation.

AG8. Determining whether a particular set of activities and assets and/or liabilities is an operation should be based on whether the integrated set is capable of being conducted and managed as an operation by another entity. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a transferor operated the set as an operation or whether the acquirer intends to operate the set as an operation.

AG9. In the absence of evidence to the contrary, a particular set of activities and assets and/or liabilities in which goodwill is present should be presumed to be an operation. However, an operation need not have goodwill.

Classification of Entity Combinations (see paragraphs 7–14)

Assessment of Control (see paragraphs 7–8)

AG10. Where a party to an entity combination gains control of one or more operations as a result of that combination, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. If no party to the combination gains control, the combination is classified as an amalgamation. In making this assessment the first step is to determine whether one of the entities that existed prior to the entity combination has gained control of one or more operations. Because this determination is made by reference to the entities that existed prior to the entity combination, it differs from the assessment of control made in accordance with ASLB 35, '*Consolidated Financial Statements'*, where the assessment of control is made by reference to the entities that exist after an entity combination has taken place.

AG11. In determining whether one party to an entity combination gains control of one or more operations as a result of the combination, an entity applies the principles and guidance in ASLB 35. In applying the principles and guidance, references to "an entity controls" are read as "an entity gains control of" and references to "another entity" are read as "an operation". For example, in determining whether one party to an entity combination gains control of one or more operations as a result of the combination for the purposes of this Standard, paragraph 20 of ASLB 35 should be read as follows (amended text is shown in italics):

> Thus, an entity *gains control of an operation* if and only if the entity *gains* all the following:
>
> (a) Power over the operation (see paragraphs 23–29);
>
> (b) Exposure, or rights, to variable benefits from its involvement with the operation (see paragraphs 30–34); and
>
> (c) The ability to use its power over the operation to affect the nature or amount of the benefits from its involvement with the operation (see paragraphs 35–37).

AG12. In applying the principles and guidance in ASLB 35, an entity has regard to paragraphs AG13–AG18.

AG13. An entity combination effected primarily by the transfer of consideration (i.e., by transferring cash or other assets or by incurring liabilities) usually results in one entity gaining control of one or more operations.

AG14. An entity combination effected primarily by exchanging equity interests usually results in one entity gaining control of one or more operations. Combinations involving an exchange of equity interests usually results in one entity having sufficient voting rights to gain control of one or more operations. This may occur without the entity having a majority of the voting rights where the entity has a large minority voting interest and no other owner or organised group of owners has a significant voting interest.

AG15. An entity combination involving the issuance of equity interests may give rise to a reverse acquisition (see paragraphs AG66–AG71). An entity considers this possibility in determining whether one party to an entity combination gains control of operations.

AG16. In an entity combination involving more than two entities, the party to the entity combination that initiates the combination (if any) is more likely to gain control of operations than the other parties to the combination.

AG17. In an entity combination in which a new entity is formed to effect the combination, that entity may gain control of operations only where the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place, an entity considers whether one of the parties to the combination that existed prior to the combination taking place gains control of operations.

AG18. If the application of this guidance identifies one party to the combination as gaining control of one or more operations, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. An entity considers the guidance in paragraphs 9–14 and AG19–AG50 to determine whether the economic substance of the combination is that of an amalgamation. If the application of the guidance does not identify one party to the combination as gaining control of one or more operations, the combination should be classified as an amalgamation.

Assessment of the Classification of an Entity Combination (see paragraphs 9–14)

AG19. If one party to an entity combination gains control of one or more operations as a result of the combination, the combination should be classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. In assessing whether the economic substance of the combination is that of an amalgamation, an entity considers the economic substance of the entity combination and the indicators in paragraphs 12–14. A combination that does not have the economic substance of an amalgamation should be classified as an acquisition. In making this assessment, an entity considers the following guidance.

Economic Substance (see paragraph 9)

AG20. Usually, an analysis of the indicators in paragraphs 12–13,individually or on combination, will produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation.

AG21 Where consideration of the indicators in paragraphs 12–13 produces inconclusive results or does not provide sufficient evidence to clearly determine the economic substance of the combination, an entity considers the additional matters in paragraph 14.

AG22. The economic substance of an amalgamation is usually that a new entity is formed, irrespective of the legal form of the resulting entity. This applies equally to a combination in which one party to the combination gains control of one or more operations. If the economic substance of an entity combination is that one of the parties to the combination continues to exist, this may provide evidence that the economic substance of the combination is that of an acquisition. In combinations of operations under common control, the fact that the ultimate controlling entity controls the operations both before and after the combination reduces the significance of this factor.

AG23. An amalgamation involves the integration of the operations that are part of the entity combination. In other words, an amalgamation does not give rise to a controlling entity/ controlled entity relationship between parties to a combination. If, following the combination, any of the operations operate as controlled entities of a party to the combination, this may provide evidence that the economic substance of the combination is that of an acquisition.

AG24. An acquisition is usually a mutual agreement between two or more parties, and usually has commercial substance. However, in the Local Body, a party to the combination may be able to impose an entity combination on the other party to the combination. Where this results in the entity gaining access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement, it is probable that the economic substance of the entity combination is that of an acquisition.

AG25. Where, after consideration of the indicators and the nature of the entity combination, there is insufficient evidence that the entity combination has the economic substance of an amalgamation, the combination should be classified as an acquisition.

Indicators Relating to Consideration (see paragraph 12)

AG26. Amalgamations usually do not involve the payment of consideration to compensate a seller for giving up their entitlement to the net assets of an operation. By contrast, acquisitions usually involve an exchange of consideration between those gaining control of the operations and those losing control of the operations.

AG27. The payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement provides evidence that the economic substance of the entity combination is an acquisition. In such cases, the combination is classified as an acquisition.

AG28. The payment of consideration that is not intended to compensate the seller for giving up their entitlement to the net assets of an operation, but is, for example, intended to reimburse them for costs incurred in effecting the entity combination, may provide evidence that the economic substance of the combination is that of an amalgamation.

AG29. Acquisitions may occur without an exchange of consideration, for example where an individual bequeaths an operation to an entity. Consequently, the absence of consideration does not in itself provide evidence of the economic substance of the entity combination. In assessing consideration, an entity also considers the reasons why consideration was either paid or not paid.

AG30. Where an entity combination does not include the payment of consideration, an entity considers the reasons why no consideration has been paid. If the former owner has given up their entitlement to the net assets of an operation, or has had their entitlement extinguished through compulsion (for example, in an uncompensated seizure), there may be evidence that the combination is an acquisition.

AG31. Where an entity combination does not include the payment of consideration because there is no party with an entitlement to the net assets of an operation, the economic substance of the combination will usually be that of an amalgamation. An acquisition involves a transfer of an operation from its former owner to its new owner. If there is no party with an entitlement to the net assets of an operation, there is no former owner, and the combination is usually not an acquisition. This scenario will only arise where a complete entity is being transferred; where an individual operation is being transferred, the entity transferring the operation will be the former owner and will be entitled to the net assets of the operation. Examples of entities where there will be no former owner(s) include municipalities and some not-for-profit organisations.

Indicators Relating to the Decision-Making Process (see paragraph 13)

AG32. An acquisition usually requires the voluntary participation of all the parties to the combination. Consequently, where an entity combination is imposed by a third party without any party to the combination being involved in the decision-making process, this may provide evidence that the economic substance of the combination is an amalgamation.

AG33. In other circumstances, the parties to the entity combination will be able to influence the terms of the combination to different degrees even when the combination is imposed by a third party. As the degree of influence the parties to the combination have increases, particularly the influence of the party that gains control of one or more operations, it becomes less likely that a conclusion regarding the economic substance of the combination can be drawn.

AG34. For example, the parties to the combination may be directed to combine by a regulator, but the regulator allows the parties to determine the terms of the combination. The economic substance of this entity combination is likely to be determined by the terms of the combination agreed by the parties rather than by the decision of the regulator that the parties must combine.

AG35. Where the party to the entity combination that gains control of one or more operations is able to impose the combination on the other party, this does not provide evidence that the economic substance of the combination is that of an amalgamation. For example, a Local Body may decide to statutorily acquire a private sector entity, contrary to the wishes of the shareholders. The fact that the Local Body (a party to the combination) is able to impose the acquisition, for example through legislation, does not provide evidence that the economic substance of the combination is an amalgamation. Where the party to the combination that gains control of one or more operations is able to impose the combination on the other party, this provides evidence that the economic substance of the combination is that of an acquisition.

AG36. [Refer to Appendix 1]

AG37. Where an entity combination takes place between two parties that are under common control, this may provide evidence that the economic substance of the combination is that of an amalgamation. Entity combinations under common control are often instigated by and on behalf of the controlling entity, and the controlling entity will often determine the terms of the combination. For example, a Local Body may decide to combine two entities, gas supply board and waste recycle board, for administrative or political reasons, and specify the terms of the combination. In such circumstances, the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. This provides evidence that the economic substance of the combination is an amalgamation.

AG38. In some circumstances, two operations under common control may agree to combine voluntarily. However, this decision will usually be subject to the approval of the controlling entity, whether this approval is given explicitly or not. Where the approval of the controlling entity is required, this provides evidence that the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. Consequently, this provides evidence that the economic substance of the combination is that of an amalgamation.

AG39. Only where there is no evidence that the controlling entity is involved in the entity combination, either by instigating the combination, determining the terms of the combination, or approving (whether explicitly or implicitly) the combination, will there be no evidence that the economic substance of the combination is that of an amalgamation. In such circumstances, the entity considers all other factors in determining the classification of the entity combination.

Additional Matters to be Considered Where the Indicators Relating to Consideration and the Decision-Making Process do not Provide

Sufficient Evidence to Determine Whether the Economic Substance of the Combination is that of an Amalgamation (see paragraph 14)

AG40. Where an analysis of the indicators relating to consideration and the decision-making process produces inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification and resulting accounting treatment would provide information that:

(a) Best meets the objectives of financial reporting; and

(b) Best satisfies the qualitative characteristics (QCs).

AG41. An analysis of the indicators relating to consideration and the decision-making process will usually produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. This is because the indicators relating to consideration and the decision-making process will provide evidence of the economic substance of an entity combination in all but exceptional circumstances. As a result, where it is clear that the indicators have been met, the additional matters set out in paragraph 14 are not considered in determining the classification.

AG42. Where an analysis of the indicators relating to consideration and the decision- making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification would provide information that best meets the objectives of financial reporting. The determination of whether an entity combination is classified as an acquisition or an amalgamation can significantly affect the financial reporting of the combination. Consequently, it is important to consider the information each method provides and the principal users of that information.

AG43. The modified pooling of interests method views the combination from the perspective of each of the combining operations and their owners or constituents who are uniting their interests in the resulting entity. Using the modified pooling of interests method of accounting, the combining operations measure the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date. Such information may assist users in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods. However, this comparability may be reduced where adjustments to achieve consistent accounting policies are required. It does not include information about the market's expectation of the value of the future cash flows associated with assets and liabilities, other than assets and liabilities recorded at fair value prior to the date of the amalgamation.

AG44. The acquisition method views a combination from the perspective of the acquirer—the entity that gains control of the other operations. The acquirer purchases or otherwise gains control over net assets and recognises in its financial statements the assets acquired and liabilities assumed, including those not previously recognised by the acquired operation. Such information assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments and comparing them with the performance of other entities based on the investment made by the acquirer. It also includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities. While it revalues the assets and liabilities of the acquired operation, it does not affect the valuation of assets and liabilities held by the acquirer prior to the acquisition. Further, depending on the relationship between the amounts in paragraph 85(a) and 85(b) and other factors (for example, a bargain purchase), it may result in the immediate recognition of a gain or loss through surplus or deficit.

AG45. The information provided by each approach is summarised in the following table.

	Amalgamation	**Acquisition**
Perspective	Perspective of each of the combining operations and their owners or constituents.	Perspective of the acquirer.

User information	Assists users of the financial statements in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods.	Assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments.
Basis of reported values	Measures the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date.	Revalues the identifiable assets and liabilities of the acquired operation but does not affect the valuation of assets and liabilities held by the acquirer. Includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities.
Ability to compare to operating results of prior periods	May facilitate the comparison of operating results with prior periods. Comparability may be reduced where adjustments to achieve consistent accounting policies are required.	Difficult to compare operating results with prior periods.

AG46. Consideration of which classification would provide information that best meets the objectives of financial reporting provides evidence of the economic substance of the entity combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

AG47. Where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine the classification of the combination, an entity considers which classification would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. In making this assessment, an entity also considers the constraints on information included in general purpose financial reports, which are materiality, cost-benefit and the balance between the QCs.

AG48. When considering the classification of an entity combination, some QCs will be more significant than others. For example, timeliness will be less significant than understandability when considering whether a combination is an amalgamation or an acquisition.

AG49. An entity considers the QCs and the constraints on information from the perspective of the users of the financial statements. This will include consideration of the following questions; this list is not exhaustive.

(a) Which classification most faithfully represents the economic substance of the entity combination, which may be different from its legal form? Does that classification faithfully represent an entity's financial performance and financial position?

(b) Which classification will help users understand the nature of the entity combination? For example, in an amalgamation, any difference between the total recognised assets and total recognised liabilities is recognised in net assets/equity, whereas in an acquisition, the acquirer recognises goodwill, or a gain or loss in the reporting period. Which approach best helps the user to understand the nature of the combination?

(c) Users' needs are best served when the information provided in respect of a transaction is comparable. How are similar entity combinations classified?

AG50. Consideration of which classification would provide information that best meets the QCs provides evidence of the economic substance of the entity combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

Accounting for Amalgamations

Eliminating Transactions Between the Combining Operations (see paragraph 22)

AG51. A resulting entity eliminates the effects of all transactions between the combining operations. For many transactions, elimination will take place automatically. For example, one combining operation provided services for a fee to another combining operation prior to the amalgamation date. The revenue of the combining operation that provided the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The expense of the combining operation receiving the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The resulting entity will recognise both amounts in net assets/equity.

AG52. Elimination may not take place automatically where one combining operation has recognised an asset, and another combining operation has recognised a corresponding liability as a result of the transaction between two combining operations. The resulting entity eliminates both the asset and the liability, and recognises any difference between the asset and liability in net assets/equity.

Carrying Amounts to be Used (see paragraphs 26–27)

AG53. Where a combining operation has previously been acquired in an acquisition (i.e., it was previously an acquired operation), the carrying amounts of the combining operation's assets and liabilities in its separate financial statements may be different to the carrying amounts of those assets and liabilities in the controlling entity's financial statements. In an acquisition, the controlling entity would measure the combining operation's assets and liabilities at their fair value. However, where the combining operation (i.e., the previously acquired operation) continues to prepare separate financial statements, it would use its previous carrying amounts. The fair value measurements in the financial statements of the controlling entity are not pushed down to the combining operation.

AG54. To meet the requirements in paragraphs 26–27, a resulting entity measures the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. The resulting entity does not measure the assets and liabilities at the carrying amounts in the financial statements of the controlling entity.

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation (see paragraph 32)

AG55. As part of an amalgamation, a resulting entity may receive a license or similar right that had previously been granted by one combining operation to another combining operation to use one or more of the grantor's recognised or unrecognised assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. The resulting entity recognises this license or similar right as an identifiable intangible asset, and measures the intangible asset at its carrying amount in the financial statements of the combining operation as of the amalgamation date. Because the license or similar right has previously been part of a binding arrangement, the license satisfies both the separability and binding arrangement criteria in ASLB 31, '*Intangible Assets*'. Paragraph 47 provides guidance on the subsequent accounting for a license or similar right previously granted by one combining operation to another combining operation.

AG56. The resulting entity assesses both the license or similar right previously granted by one combining operation to another combining operation, and the underlying asset (where the underlying asset is a recognised asset) for impairment in accordance with ASLB 21, '*Impairment of Non-Cash- Generating Assets'* and ASLB 26, '*Impairment of Cash-Generating Assets'*, at the amalgamation date.

Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraph 34)

AG57. The resulting entity should account for a combining operation's tax due where included in the terms of the amalgamation.

AG58. [Refer to Appendix 1]

Recognition of Goodwill (see paragraph 36)

AG59. Amalgamations do not give rise to goodwill, and consequently a resulting entity does not recognise goodwill arising from an amalgamation. Paragraphs 37–38 specify the treatment of the net assets/equity arising as a result of the amalgamation.

AG60. Where a combining operation has previously recognised goodwill as a result of a previous acquisition, the resulting entity recognises this goodwill in its opening balance sheet.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation (see paragraph 48)

AG61. Prior to an amalgamation taking place, a combining operation may receive a transfer from a third party, based on specified criteria. For example, Central government may provide grants to those municipalities where the average household income is below a threshold. An amalgamation of two municipalities may involve one municipality which met the criteria and received the grant, and one municipality which did not meet the criteria and which did not receive the grant. Following the amalgamation, the average household income of the new, combined municipality will either be above or below the threshold, which may cause the grantor to reassess the amount of grant given.

AG62. The resulting entity should not account for any revisions to the grant amount as part of the amalgamation, but should account for any revisions at the point the grantor makes its intentions known in accordance with other ASLBs.

AG63. Similar circumstances may arise in respect of concessionary loans and other benefits. The resulting entity should not account for any revisions to those transactions as part of the amalgamation, but should account for any revisions at the point the grantor makes its intentions known in accordance with other ASLBs.

Amalgamations Occurring during a Reporting Period (see paragraphs 50–52)

AG64. To meet the requirements of paragraphs 50–52, the resulting entity is not required to present financial statements for periods prior to the amalgamation date, although it may elect to do so by making the disclosures specified in paragraph 54(g). Where the resulting entity does not elect to present financial statements for periods prior to the amalgamation date, it meets the needs of the users of its financial statements for information about the combining operations prior to the amalgamation by:

(a) Where financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), directing the users of its financial statements to the financial statements issued on behalf of the combining operations.

(b) Where no financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), making the disclosures required by paragraph 54(h).

AG65. To satisfy the requirements of a regulator, it may be necessary for the combining operations and/or the resulting entity to present or disclose information in addition to that required by this Standard.

Accounting for Acquisitions

Reverse Acquisitions

AG66. A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquired operation for accounting purposes on the basis of the guidance in paragraphs AG10–AG18. The entity whose equity interests are acquired (the legal acquired operation) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition. For example, reverse acquisitions sometimes occur when an entity wants to become a listed entity but does not want to register its equity shares. To accomplish that, the entity will arrange for a listed entity to acquire its equity interests in exchange for the equity interests of the listed entity. In this example, the listed entity is the legal acquirer because it issued its equity interests, and the entity is the legal acquired operation because its equity interests were acquired. However, application of the guidance in paragraphs AG10–AG18 results in identifying:

(a) The listed entity as the acquired operation for accounting purposes (the accounting acquired operation)–i.e., the listed entity does not gain control of one or more operations; and

(b) The entity as the acquirer for accounting purposes (the accounting acquirer)–i.e., the entity does gain control of one or more operations.

The accounting acquired operation must meet the definition of an operation for the transaction to be accounted for as a reverse acquisition, and all of the recognition and measurement principles in this Standard, including the requirement to recognise goodwill, apply.

Measuring the Consideration Transferred

AG67. In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquired operation. Instead, the accounting acquired operation usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquired operation is based on the number of equity interests the legal controlled entity would have had to issue to give the owners of the legal controlling entity the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquired operation.

Preparation and Presentation of Consolidated Financial Statements

AG68. Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal controlling entity (accounting acquired operation) but described in the notes as a continuation of the financial statements of the legal controlled entity (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquired operation. That adjustment is required to reflect the capital of the legal controlling entity (the accounting acquired operation). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal controlling entity (accounting acquired operation).

AG69. Because the consolidated financial statements represent the continuation of the financial statements of the legal controlled entity except for its capital structure, the consolidated financial statements reflect:

(a) The assets and liabilities of the legal controlled entity (the accounting acquirer) recognised and measured at their pre-combination carrying amounts.

(b) The assets and liabilities of the legal controlling entity (the accounting acquired operation) recognised and measured in accordance with this Standard.

(c) The accumulated surplus or deficit and other equity balances of the legal controlled entity (accounting acquirer) before the acquisition.

(d) The amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal controlled entity (the accounting acquirer) outstanding immediately before the acquisition to the fair value of the legal controlling entity (accounting acquired operation). However, the equity structure (i.e., the number and type of equity interests issued) reflects the equity structure of the legal controlling entity (the accounting acquired operation), including the equity interests the legal controlling entity issued to effect the acquisition. Accordingly, the equity structure of the legal controlled entity (the accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of the legal controlling entity (the accounting acquired operation) issued in the reverse acquisition.

(e) The non-controlling interest's proportionate share of the legal controlled entity's (accounting acquirer's) pre-acquisition carrying amounts of retained earnings and other equity interests as discussed in paragraphs AG70 and AG71.

Non-Controlling Interest

AG70. In a reverse acquisition, some of the owners of the legal acquired operation (the accounting acquirer) might not exchange their equity interests for equity interests of the legal controlling entity (the accounting acquired operation). Those owners are treated as a non-controlling interest in the consolidated financial statements after the reverse acquisition. That is because the owners of the legal acquired operation that do not exchange their equity interests for equity interests of the legal acquirer have an interest in only the results and net assets of the legal acquired operation—not in the results and net assets of the combined entity. Conversely, even though the legal acquirer is the acquired operation for accounting purposes, the owners of the legal acquirer have an interest in the results and net assets of the combined entity.

AG71. The assets and liabilities of the legal acquired operation are measured and recognised in the consolidated financial statements at their pre-combination carrying amounts (see paragraph AG69(a)). Therefore, in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-acquisition carrying amounts of the legal acquired operation's net assets even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.

Recognising Particular Assets Acquired and Liabilities Assumed in an Acquisition (see paragraphs 64–68)

Operating Leases

AG72. The acquirer should recognise no assets or liabilities related to an operating lease in which the acquired operation is the lessee except as required by paragraphs AG73–AG74.

AG73. The acquirer should determine whether the terms of each operating lease in which the acquired operation is the lessee are favorable or unfavorable. The acquirer should recognise an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms. Paragraph AG89 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquired operation is the lessor.

AG74. 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 shopping complex might provide entry into a market or other future economic benefits or service potential that qualify as identifiable intangible assets. In that situation, the acquirer should recognise the associated identifiable intangible asset(s) in accordance with paragraph AG75.

Intangible Assets

AG75. The acquirer should recognise, separately from goodwill, the identifiable intangible assets acquired in an acquisition. An intangible asset is identifiable if it meets either the separability criterion or the binding arrangement criterion.

AG76. An intangible asset that meets the binding arrangement criterion is identifiable even if the asset is not transferable or separable from the acquired operation or from other rights and obligations. For example:

(a) An acquired operation leases a facility under an operating lease that has terms that are favorable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favorable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease arrangement.

(b) An acquired operation owns and operates a hydro-electricity power plant. The license to operate that power plant is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognise the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

(c) An acquired operation owns a technology patent. It has licensed that patent to others for their exclusive use. Both the technology patent and the related license agreement meet the binding arrangement criterion for recognition separately from goodwill even if selling or exchanging the patent and the related license agreement separately from one another would not be practical.

AG77. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquired operation and sold, transferred, licensed, rented or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, lists of users of a service are frequently licensed and thus meet the separability criterion. Even if an acquired operation believes its lists of users of a service have characteristics different from other lists of users of a service, the fact that lists of users of a service are frequently licensed generally means that the acquired list of users of a service meets the separability criterion. However, a list of users of a service acquired in an acquisition would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its users of a service.

AG78. An intangible asset that is not individually separable from the acquired operation or combined entity meets the separability criterion if it is separable in combination with a related binding arrangement, identifiable asset or liability. For example, an acquired operation owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquired operation or combined entity and sold if the related trademark is sold, it meets the separability criterion.

Reacquired Rights

AG79. As part of an acquisition, an acquirer may reacquire a right that it had previously granted to the acquired operation to use one or more of the acquirer's recognised or unrecognised assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognises separately from goodwill or a gain from a bargain purchase. Paragraph 83 provides guidance on measuring a reacquired right and paragraph 113 provides guidance on the subsequent accounting for a reacquired right.

AG80. If the terms of the binding arrangement giving rise to a reacquired right are favorable or unfavorable relative to the terms of current market transactions for the same or similar items, the acquirer should recognise a settlement gain or loss. Paragraph AG100 provides guidance for measuring that settlement gain or loss.

Assembled Workforce and Other Items that are not Identifiable

AG81. The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired operation from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce — the (often specialised) knowledge and experience that employees of an acquired operation bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognised separately from goodwill or a gain from a bargain purchase, any value attributed to it is subsumed into goodwill or a gain from a bargain purchase.

AG82. The acquirer also subsumes into goodwill or a gain from a bargain purchase any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential binding arrangements the acquired operation is negotiating with prospective new customers at the acquisition date. Because those potential binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognise them separately from goodwill or a gain from a bargain purchase. The acquirer should not subsequently reclassify the value of those binding arrangements from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognisable intangible asset existed at the acquisition date.

AG83. After initial recognition, an acquirer accounts for intangible assets acquired in an acquisition in accordance with the provisions of ASLB 31. However, as described in paragraph 6 of ASLB 31, the accounting for some acquired intangible assets after initial recognition is prescribed by other ASLBs.

AG84. The identifiability criteria determine whether an intangible asset is recognised separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future renewals of binding arrangements, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 83, which establishes an exception to the fair value measurement principle for reacquired rights recognised in an acquisition.)

Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraph 79)

AG85. The acquirer should account for an acquired operation's tax due where included in the terms of the acquisition.

AG86-87. [Refer to Appendix 1]

Measuring the Fair Value of Particular Identifiable Assets and a Non-Controlling Interest in an Acquired Operation in an Acquisition (see paragraphs 72–73)

Assets with Uncertain Cash Flows (Valuation Allowances)

AG88. The acquirer should not recognise a separate valuation allowance as of the acquisition date for assets acquired in an acquisition that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values in accounting for an acquisition, the acquirer does not recognise a separate valuation allowance for the cash flows of the binding arrangement that are deemed to be uncollectible at that date or a loss allowance for expected credit losses.

Assets Subject to Operating Leases in Which the Acquired Operation is the Lessor

AG89. In measuring the acquisition-date fair value of an asset such as a building that is subject to an operating lease in which the acquired operation is the lessor, the acquirer should take into account the terms of the lease. In other words, the acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms as paragraph AG73 requires for leases in which the acquired operation is the lessee.

Assets that the Acquirer Intends not to Use or to Use in a Way that is Different from the Way Other Market Participants Would Use them

AG90. To protect its competitive position, or for security or other reasons, the acquirer may intend not to use an acquired non-financial asset actively, or it may not intend to use the asset according to its highest and best use. For example, that might be the case for an acquired research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer should measure the fair value of the non-financial asset assuming its highest and best use by market participants in accordance with the appropriate valuation premise, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.

Non-Controlling Interest in an Acquired Operation

AG91. This Standard allows the acquirer to measure a non-controlling interest in the acquired operation at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (i.e., those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques.

AG92. The fair values of the acquirer's interest in the acquired operation and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquired operation or, conversely, the inclusion of a discount for lack of control (also referred to as a non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.

Measuring Goodwill or a Gain from a Bargain Purchase in an Acquisition (see paragraphs 85–98)

Relationship Between Goodwill and Cash Flows (see paragraph 86)

AG93. The acquirer should recognise goodwill only to the extent that the acquirer estimates there will be favorable changes to its net cash flows, either from increased cash inflows or decreased cash outflows. An acquirer should not recognise goodwill related to service potential other than cash flows.

Measuring the Acquisition-Date Fair Value of the Acquirer's Interest in the Acquired Operation Using Valuation Techniques (see paragraph 87)

AG94. In an acquisition achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquired operation for the acquisition-date fair value of the consideration transferred to measure goodwill, a loss or a gain on a bargain purchase (see paragraphs 85–87).

AG95-97. [Refer to Appendix 1]

Determining what is Part of the Acquisition Transaction (see paragraphs 109–111)

AG98. The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquired operation or whether the transaction is separate from the acquisition:

(a) The reasons for the transaction. Understanding the reasons why the parties to the acquisition (the acquirer and the acquired operation and their owners, directors and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquired operation or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquired operation. Accordingly, the acquirer would account for that portion separately from the acquisition.

(b) Who initiated the transaction. Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquired operation or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquired operation or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the acquisition transaction.

(c) The timing of the transaction. The timing of the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction between the acquirer and the acquired operation that takes place during the negotiations of the terms of an acquisition may have been entered into in contemplation of the acquisition to provide future economic benefits to the acquirer or the combined entity. If so, the acquired operation or its former owners before the acquisition are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

Effective Settlement of a Pre-Existing Relationship between the Acquirer and Acquired Operation in an Acquisition (see paragraph 110(a))

AG99. The acquirer and acquired operation may have a relationship that existed before they contemplated the acquisition, referred to here as a ‘pre-existing relationship’. A pre-existing relationship between the acquirer and acquired operation may arise from a binding arrangement (for example, vendor and customer or licensor and licensee) or may arise outside of a binding arrangement (for example, plaintiff and defendant).

AG100. If the acquisition in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

(a) For a pre-existing relationship arising outside of a binding arrangement (such as a lawsuit), fair value.

(b) For a pre-existing relationship arising from a binding arrangement, the lesser of (i) and (ii):

(i) The amount by which the binding arrangement is favorable or unfavorable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavorable binding arrangement is a binding arrangement that is unfavorable in terms of current market terms. It is not necessarily an onerous binding arrangement in which the unavoidable costs of meeting the obligations under the binding arrangement exceed the economic benefits expected to be received under it.)

(ii) The amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the binding arrangement is unfavorable.

If (ii) is less than (i), the difference is included as part of the acquisition accounting.

The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

AG101. A pre-existing relationship may be a binding arrangement that the acquirer recognises as a reacquired right. If the binding arrangement includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognises, separately from the acquisition, a gain or loss for the effective settlement of the binding arrangement, measured in accordance with paragraph AG100.

Arrangements for Contingent Payments to Employees or Selling Shareholders (see paragraph 110(b))

AG102. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the acquisition or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

AG103. If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquired operation or is a transaction separate from the acquisition, the acquirer should consider the following indicators:

(a) Continuing employment. The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.

(b) Duration of continuing employment. If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.

(c) Level of remuneration. Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.

(d) Incremental payments to employees. If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is remuneration.

(e) Number of shares owned. The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned only a small number of shares in the acquired operation continue as key employees and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to selling shareholders who continue as key employees, such as family members, should also be considered.

(f) Linkage to the valuation. If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquired operation and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration.

(g) Formula for determining consideration. The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the acquisition and that the formula is intended to establish or verify the fair value of the acquired operation.

(h) Other agreements and issues. The terms of other arrangements with selling shareholders (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquired operation. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant selling shareholder. If the lease payments specified in the lease arrangement are significantly below market, some or all of the contingent payments to the lessor (the selling shareholder) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognise separately in its post-combination financial statements. In contrast, if the lease arrangement specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the selling shareholder may be contingent consideration in the acquisition.

AG104-106. [Refer to Appendix 1]

Subsequent Measurement and Accounting (see paragraph 112)

AG107. Examples of other ASLBs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an acquisition include:

(a) ASLB 31 prescribes the accounting for identifiable intangible assets acquired in an acquisition. The acquirer measures goodwill at the amount recognised at the acquisition date less any accumulated impairment losses. ASLB 26 prescribes the accounting for impairment losses.

(b) ASLB 35 provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.

AG108. [Refer to Appendix 1]

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition (see paragraph 114)

AG109. Prior to an acquisition taking place, an acquirer or an acquired operation may receive a transfer from a third party, based on specified criteria. For example, a Central Government may provide grants to those municipalities where the municipality's revenue per head of population is below a threshold. An acquisition by a municipality of a cash-generating operation may increase the revenue per head of population of the municipality so that it is above the threshold. This may cause the government to review the grant.

AG110. The acquirer should not account for any revisions to the grant amount as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other ASLBs.

AG111. Similar circumstances may arise in respect of concessionary loans and other benefits. The acquirer should not account for any revisions to those transactions as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other ASLBs.

Acquisitions Occurring during a Reporting Period

AG112. The resulting entity meets the needs of the users of its financial statements for information about the acquired operations prior to the acquisition by making the disclosures in paragraph 120(r).

AG113. To satisfy the requirements of a regulator, it may be necessary for the acquirer to present or disclose information in addition to that required by this Standard.

AG114-115. [Refer to Appendix 1]

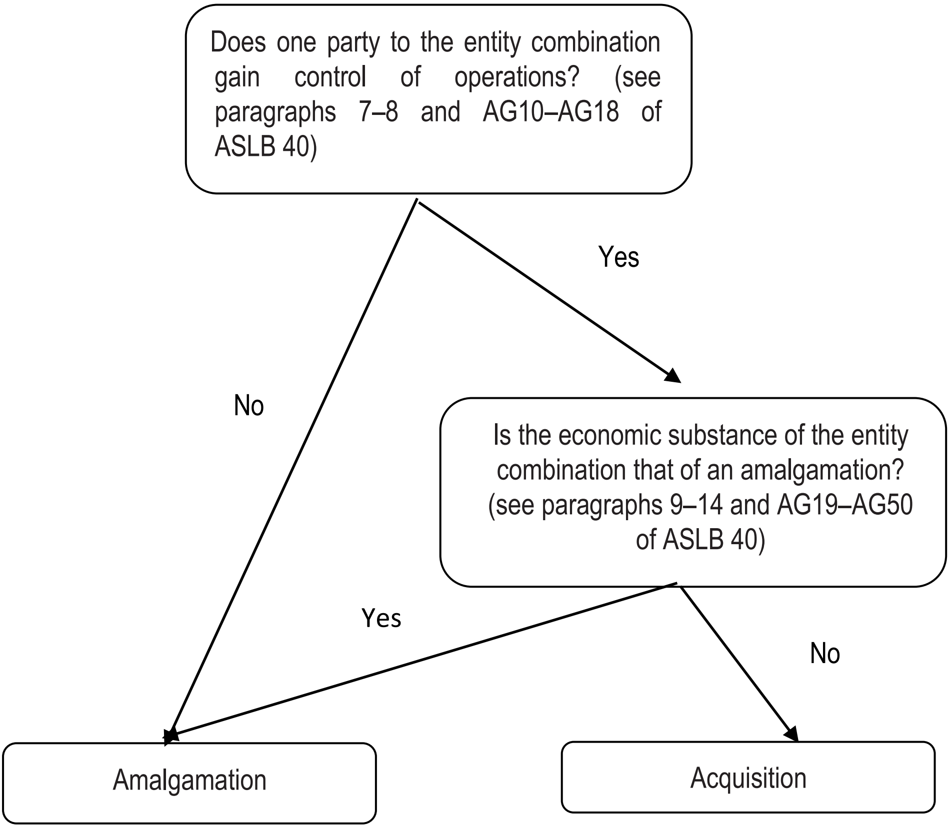
Implementation Guidance

This guidance accompanies, but is not part of, ASLB 40.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of ASLB 40.

Classification of Entity Combinations

IG2. The diagram below summarises the process established by ASLB 40 for classifying entity combinations.



Accounting of Entity Combinations

IG2A. The diagram below summarises the accounting treatment for amalgamation according to modified pooling of interests method of accounting in the books of resulting entity as prescribed in paragraphs 15-49 of ASLB 40.

1. Identifying the resulting entity

2. Determining the amalgamation date

3. Recognising and measuring the identifiable assets received, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in ASLBs

Measure the identifiable assets, liabilities and non-controlling interest in the combining operations at their carrying amounts as of the amalgamation date, adjustment done to conform to the resulting entity's accounting policies

effects of all transactions between combining operations are eliminated

4. Recognising and measuring the components of net assets/equity and other adjustments from an amalgamation

- Goodwill not to be recognised
- Difference between the assets, liabilities and non-controlling interest to be recognised in net assets/equity

IG2B. The diagram below summarises the accounting treatment for amalgamation according to acquisition method in the books of acquirer entity as prescribed in paragraphs 58-118 of ASLB 40.

1. Identifying the acquirer

2. Determining the acquisition date

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

Measure the identifiable assets acquired, the liabilities assumed and other components of non-controlling interests at their acquisition-date fair values

Measure the non-controlling interests in acquired operation at either Fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquired operation's identifiable net assets

4. Recognising and measuring goodwill, gain or loss from an acquisition

- Goodwill is usually recognised only where consideration is transferred.
- In a bargain purchase, the net of the amounts of the identifiable assets acquired and the liabilities assumed may exceed any consideration paid. The acquirer recognises the resulting gain in surplus or deficit.

Illustrative Examples

These examples accompany, but are not part of, ASLB 40.

Classification of Entity Combinations

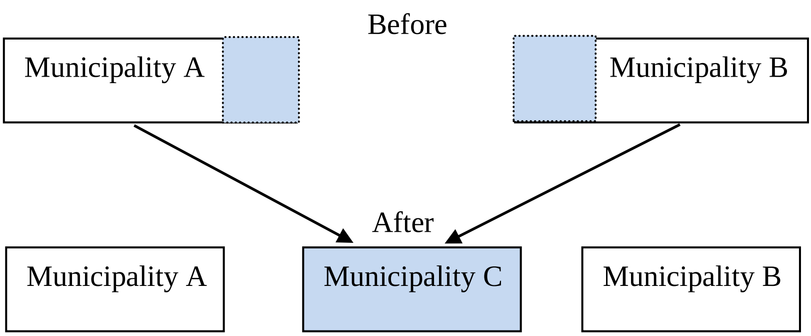
Illustrating the Consequences of Applying Paragraphs 7–14 and AG10–AG50 of ASLB 40

IE1. The following scenarios illustrate the process for classifying entity combinations. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 40.

IE2. Each scenario is illustrated by a diagram. Where an entity combination involves operations which form part of an economic entity, but not the whole economic entity, the operations that are involved in the combination, and the entity that is formed by the combination, are shaded in the diagram. Where more than one reporting entity is included in an economic entity, the boundary of the economic entity is shown by a dotted line.

Scenario 1: Reorganisation of Local Government by Rearranging Territorial Boundaries

IE3. The following diagram illustrates the creation of a new municipality by combining some operations from two existing municipalities.



IE4. In this scenario, the territorial boundaries of two existing municipalities, Municipality A and Municipality B, are redrawn through legislation. Responsibility for part of each municipality's former territory is transferred to a new municipality, Municipality C.

Operations in respect of the transferred territory are combined to form Municipality C. An entity combination occurs.

IE5. Municipality A and Municipality B remain otherwise unchanged and retain their governing bodies. A new governing body (unrelated to the governing bodies of Municipality A and Municipality B) is elected for Municipality C to manage the operations that are transferred from the other municipalities.

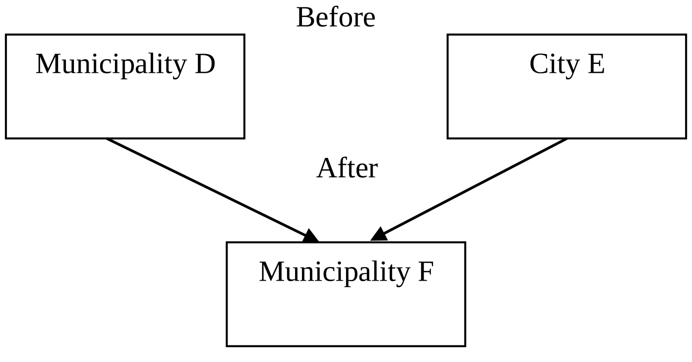
IE6. The creation of Municipality C is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE7. Municipality C has a newly elected governing body, unrelated to the governing bodies of Municipality A and Municipality B. Neither Municipality A nor Municipality B has power over the Municipality C. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality C.

IE8. Neither Municipality A nor Municipality B have gained control over Municipality C as a result of the entity combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Reorganisation of Local Government by Combining Municipalities into a New Legal Entity

IE9. The following diagram illustrates the creation of a new municipality by combining all of the operations of two existing municipalities into a new legal entity.



IE10. In this scenario, an entity combination occurs in which Municipality F is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of Municipality D and City E. Prior to the combination, Municipality D and City E are not under common control. The combination is imposed by the State Government (a third party) through legislation. The State Government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE11. The legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. Municipality D and City E have no role in determining the terms of the combination. After the combination, Municipality D and City E cease to exist.

IE12. The creation of Municipality F is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE13. Municipality F has a newly formed governing body, unrelated to the governing bodies of Municipality D and City E. Neither Municipality D nor City E has power over Municipality F. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality F.

IE14. Neither Municipality D nor City E have gained control over Municipality F as a result of the entity combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Variation

IE15. In scenario 2, the legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. In this variation, the legislation that creates Municipality F provides for the governing body of Municipality D to become the governing body of Municipality F.

IE16. This suggests that as part of the entity combination that creates Municipality F, Municipality D is gaining control of the operations of City E. However, the assessment as to whether Municipality D is gaining control is based on the substance of the combination, not its legal form. In preparing its first financial statements, Municipality F considers the guidance in paragraphs 7–8 and AG10–AG18 of ASLB 40.

IE17. In this variation, it is assumed that the legislation that provides for the governing body of Municipality D to become the governing body of Municipality F results in Municipality D gaining:

(a) Power over the operations of City E;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE18. Municipality F concludes that, as a result of the entity combination, Municipality D has gained control of City E. Municipality F considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE19. In considering the economic substance of the entity combination, Municipality F notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality D and City E. This is consistent with both an amalgamation and an acquisition. Municipality F also notes that Municipality D obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

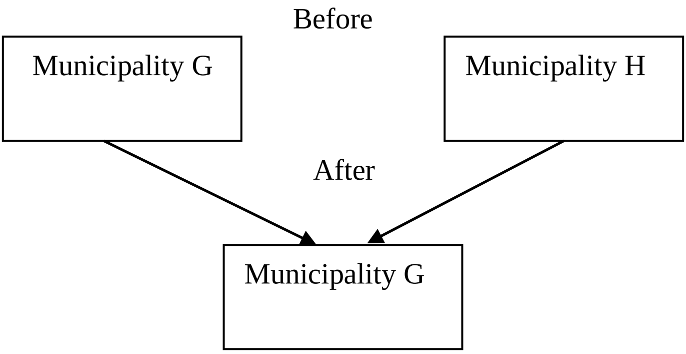
IE20. In considering the indicators relating to consideration, Municipality F notes that the entity combination does not include the payment of consideration because there is no party with an entitlement to the net assets of City E (i.e., there are no former owners of City E with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE21. In considering the indicators relating to the decision-making process, Municipality F notes that the entity combination was imposed by the State government (a third party) and that Municipality D and City E had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE22. Taking these factors together, Municipality F considers that the entity combination should be classified as an amalgamation. In coming to this decision, Municipality F considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Reorganisation of Local Government by Combining Municipalities into an Existing Legal Entity

IE23. The following diagram illustrates the combining of all of the operations of two existing municipalities into an existing legal entity.



IE24. In this scenario, an entity combination occurs in which the operations of Municipality G and Municipality H (and their related assets, liabilities and components of net assets/equity) are combined into the legal entity of Municipality G. Prior to the combination, Municipality G and Municipality H are not under common control. The combination is imposed by State Government (a third party) through legislation. State Government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE25. The legislation that effects the combination provides for the governing body of Municipality G to continue as the governing body of the combined entity. Municipality G and Municipality H have no role in determining the terms of the combination. After the entity combination, Municipality H ceases to exist.

IE26. These facts suggest that as part of the entity combination, Municipality G is gaining control of the operations of Municipality H. However, the assessment as to whether Municipality G is gaining control is based on the substance of the combination, not its legal form. Municipality G considers the guidance in paragraphs 7–8 and AG10–AG18 of ASLB 40 in determining whether to classify the combination as an amalgamation or an acquisition.

IE27. In this scenario, it is assumed that the legislation that provides for the governing body of Municipality G to continue as the governing body of combined entity results in Municipality G gaining:

(a) Power over the operations of Municipality H;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE28. Municipality G concludes that, as a result of the entity combination, it has gained control of Municipality H. Municipality G considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE29. In considering the economic substance of the entity combination, Municipality G notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality G and Municipality H. This is consistent with both an amalgamation and an acquisition. Municipality G also notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

IE30. In considering the indicators relating to consideration, Municipality G notes that the entity combination does not include the payment of consideration because there is no party with an entitlement to the net assets of Municipality H (i.e., there are no former owners of Municipality H with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE31. In considering the indicators relating to the decision-making process, Municipality G notes that the entity combination was imposed by State Government (a third party) and that Municipality G and Municipality H had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE32. Taking these factors together, Municipality G considers that the entity combination should be classified as an amalgamation. In coming to this decision, Municipality G considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Variation

IE33. In scenario 3, the legislation provides for the governing body of Municipality G to become the governing body of the combined entity. In this variation, the legislation provides for a new governing body to be formed that has no links to Municipality G or Municipality H.

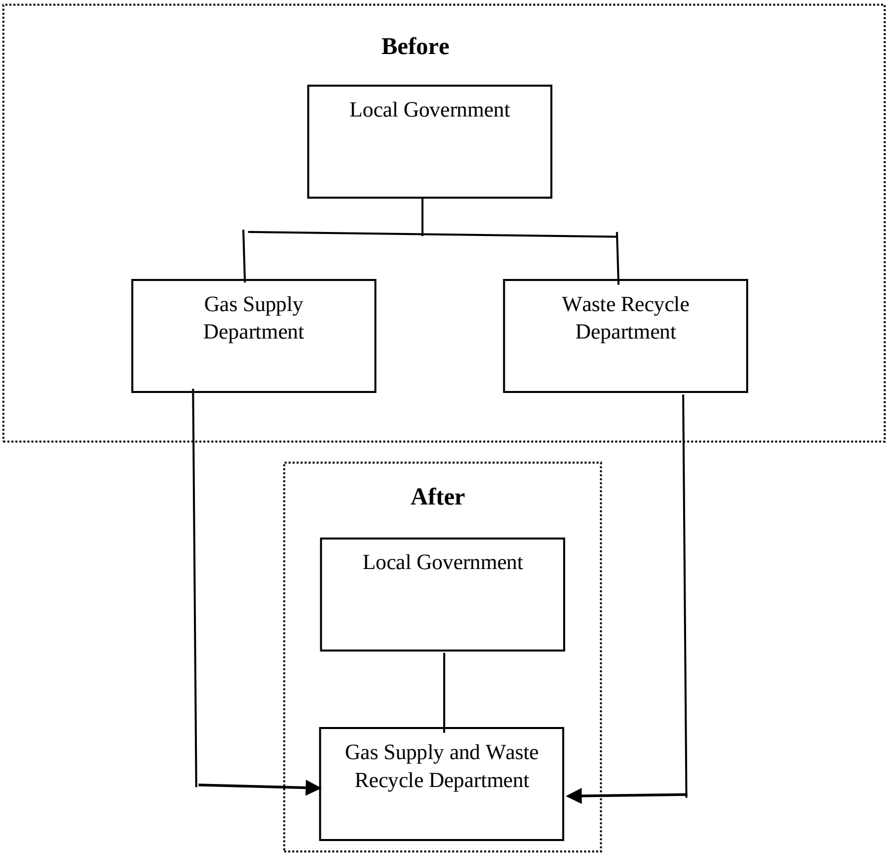
IE34. In determining whether this entity combination should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE35. Despite its legal form continuing, Municipality G has a newly formed governing body, unrelated to its previous governing body or that of Municipality H. Consequently, the previous Municipality G does not gain power over Municipality H. Neither does it have exposure, or rights, to variable benefits from any involvement with Municipality H.

IE36. Municipality G has not gained control over Municipality H as a result of the entity combination. Consequently the combination is classified as an amalgamation.

Scenario 4: Restructuring of Local Government Departments

IE37. The following diagram illustrates the reorganisation of Local Government departments by combining the Gas Supply Department and the Waste Recycle Department into the newly formed Gas Supply and Waste Recycle Department.



IE38. In this scenario, an entity combination occurs in which the Gas Supply and Waste Recycle Department is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of the Gas Supply Department and the Waste Recycle Department. All the departments, both prior to and after the combination, are controlled by Local Government. The combination is imposed by Local Government using this control. The Gas Supply Department and the Waste Recycle Department have no role in determining the terms of the combination.

IE39. In effecting the combination, Local Government gives responsibility for the new Gas Supply and Waste Recycle Department to the governing body of the Gas Supply Department. After the combination, the Waste Recycle Department and the Gas Supply Department cease to exist.

IE40. As Local Government controls the same operations both before and after the entity combination, Local Government does not report a combination in its consolidated financial statements. The combination is reported by the Gas Supply and Waste Recycle Department.

IE41. The creation of the Gas Supply and Waste Recycle Department is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE42. Local Government gives responsibility for the new Gas Supply and Waste Recycle Department to the governing body of the Gas Supply Department. This suggests that as part of the entity combination that creates the new Gas Supply and Waste Recycle Department, the Gas Supply Department is gaining control of the operations of the Waste Recycle Department. However, the assessment as to whether the Gas Supply Department is gaining control is based on the substance of the combination, not its form. In determining whether the combination should be classified as an amalgamation or an acquisition, the Gas Supply and Waste Recycle Department considers the guidance in paragraphs 7–8 and AG10–AG18 of ASLB 40.

IE43. In this scenario, it is assumed that the decision of Local Government to give responsibility for the new Gas Supply and Waste Recycle Department to the governing body of the Gas Supply Department results in the Gas Supply Department gaining:

(a) Power over the operations of the Waste Recycle Department;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE44. The Gas Supply and Waste Recycle Department concludes that, as a result of the entity combination, the Gas Supply Department has gained control of the Waste Recycle Department. The Gas Supply and Waste Recycle Department considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE45. In considering the economic substance of the entity combination, the Gas Supply and Waste Recycle Department notes that the combination does not result in a controlling entity/controlled entity relationship between the Waste Recycle Department and the Gas Supply Department. This is consistent with both an amalgamation and an acquisition. The Waste Recycle Department also notes that the Gas Supply Department obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition.

IE46. In considering the indicators relating to consideration, the Gas Supply and Waste Recycle Department notes that the entity combination does not include the payment of consideration because the combination took place under common control, and Local Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

IE47. In considering the indicators relating to the decision-making process, the Gas Supply and Waste Recycle Department notes that the entity combination takes place under common control. The combination was directed by Local Government and the Waste Recycle Department and the Gas Supply Department had no role in determining the terms of the combination. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Local Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE48. Taking these factors together, the Gas Supply and Waste Recycle Department considers that the entity combination should be classified as an amalgamation. In coming to this decision, the fact that the entity combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

Scenario 4: Variation

IE49. In scenario 4, Local Government gives responsibility for the new Gas Supply and Waste Recycle Department to the governing body of the Gas Supply Department. In this variation, Local Government appoints a new governing body.

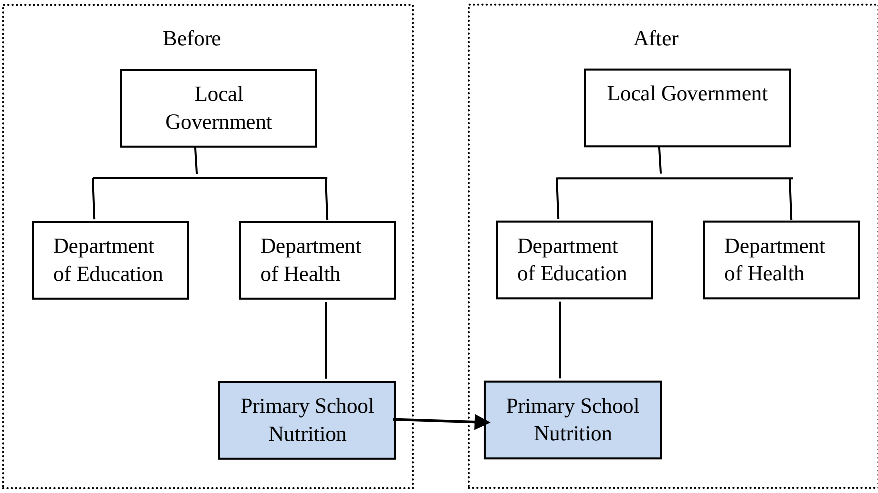
IE50. The creation of the Gas Supply and Waste Recycle Department is an entity combination under common control. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE51. The Gas Supply and Waste Recycle Department has a newly formed governing body, unrelated to the governing bodies of the Waste Recycle Department and the Gas Supply Department. Neither the Waste Recycle Department nor the Gas Supply Department has gained power over the operations of the other department. Neither do they have exposure, nor rights, to variable benefits from any involvement with the operations of the other department.

IE52. Neither of the Waste Recycle Department nor the Gas Supply Department has gained control over the Gas Supply and Waste Recycle Department as a result of the entity combination. Consequently the combination is classified as an amalgamation.

Scenario 5: Transfer of Operations Under Common Control

IE53. The following diagram illustrates the transfer of operations between two entities that are under common control.



IE54. In this scenario, an entity combination occurs in which the Primary School Nutrition operation is transferred from the Local Government's Department of Health to its Department of Education. Both departments are controlled by the Local Government prior to and after the combination.

IE55. As the Local Government controls the same operations both before and after the entity combination, the Local Government does not report a combination in its consolidated financial statements. The combination is reported by the Department of Education.

IE56. The transfer of the Primary School Nutrition operation is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Education considers is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE57. In this scenario, the Department of Education gains:

(a) Power over the Primary School Nutrition operation;

(b) Exposure, or rights, to variable benefits from its involvement with that operation; and

(c) The ability to use its power over that operation to affect the nature or amount of the benefits from its involvement with that operation.

IE58. The Department of Education concludes that, as a result of the entity combination, it has gained control of the Primary School Nutrition operation. The Department of Education considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE59. In considering the economic substance of the entity combination, the Department of Education notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction; this may suggest that the economic substance of the combination is that of an acquisition.

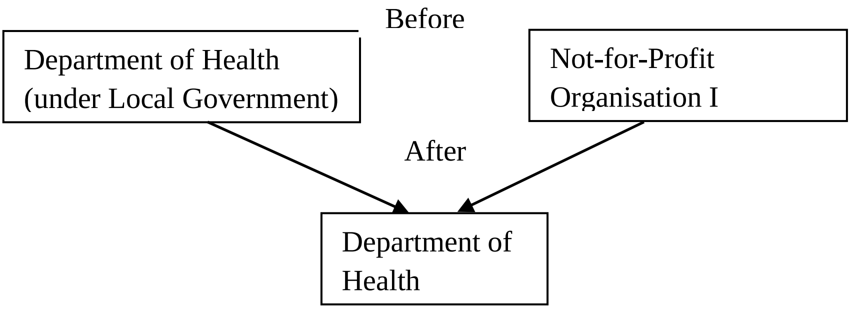
IE60. In considering the indicators relating to consideration, the Department of Education notes that the entity combination does not include the payment of consideration because the combination took place under common control, and the Local Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

IE61. In considering the indicators relating to the decision-making process, the Department of Education notes that the entity combination takes place under common control. The combination was directed by the Local Government. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Local Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE62. Taking these factors together, the Department of Education considers that the entity combination should be classified as an amalgamation. In coming to this decision, the fact that the entity combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

Scenario 6: Combination of an Entity with a Not-For-Profit Organisation

IE63. The following diagram illustrates the combination of an entity with a not-for-profit organisation providing similar services.



IE64. In this scenario, an entity combination occurs in which Not-for-Profit Organisation I, a charity which provides paramedic services, voluntarily agrees to combine with the Department of Health (that comes under Local Government) in order to improve the delivery of services to the public. The operations of Not-for-Profit Organisation I are integrated with similar operations provided by the Department of Health. Prior to the combination, the Department of Health has provided funding for Not-for-Profit Organisation I. The Department of Health meets the cost of transferring the title to the assets and liabilities of Not-for-Profit Organisation I incurred by the trustees of the charity.

IE65. The combination of the Department of Health and Not-for-Profit Organisation I is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Health considers is whether it has gained control of operations as a result of the combination.

IE66. In this scenario, the Department of Health gains:

(a) Power over Not-for-Profit Organisation I and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE67. ` The Department of Health concludes that, as a result of the entity combination, it has gained control of Not-for-Profit Organisation I. The Department of Health considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE68. In considering the economic substance of the entity combination, the Department of Health notes that the combination does not result in a controlling entity/controlled entity relationship between the Department and Not-for-Profit Organisation I. This is consistent with both an amalgamation and an acquisition.

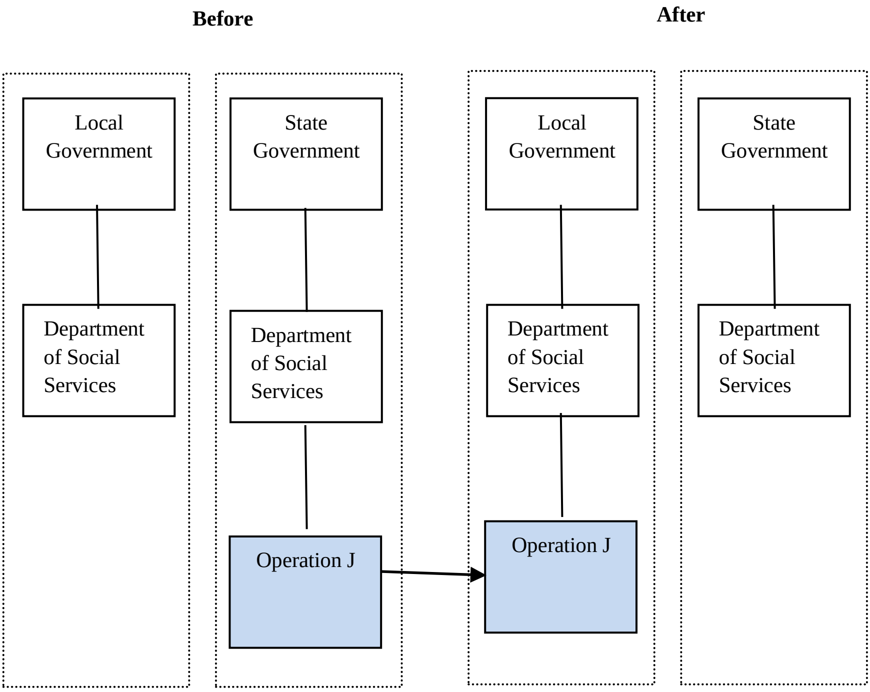
IE69. In considering the indicators relating to consideration, the Department of Health notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Although the Department of Health makes a payment to the trustees, this is to compensate them for costs incurred in effecting the combination, not to compensate them for giving up their entitlement to the net assets of Not-for-Profit Organisation I. Although Not-for-Profit Organisation I has a Board of Trustees, these individuals are not entitled to the net assets of the operation. This means there is no party with an entitlement to the net assets of Not-for-Profit Organisation I (i.e., there are no former owners of Not-for-Profit Organisation I with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation. In this scenario, this is confirmed by the fact that the purpose of the combination is to improve the delivery of services to the public.

IE70. In considering the indicators relating to the decision-making process, the Department of Health notes that the entity combination was a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE71. Taking these factors together, the Department of Health considers that the entity combination should be classified as an amalgamation. In coming to this decision, the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination. In this scenario, this view is reinforced by the fact that Board of Trustees is voluntarily giving up control over the operations to improve the delivery of services to the public.

Scenario 7: Transfer of an Operation Between Levels of Government

IE72. The following diagram illustrates the transfer of an operation between levels of government.



IE73. In this scenario, State Government adopts a policy of devolving responsibility for some social services to the Local Government. Consequently, it proposes transferring Operation J, which provides residential care services, from State Government's Department of Social Services to the Local Government's Department of Social Services. The Local Government supports the policy and agrees to accept Operation J. Operation J has net assets of Rs.1,000. There is no transfer of consideration by the Local Government to the State Government. However, the transfer agreement imposes an obligation

on the Local Government to continue to provide the residential care services for a minimum of 10 years. Operation J does not recover all its costs from charges; the Local Government therefore assumes the responsibility for providing resources to meet the shortfall. Following the transfer, the Local Government operates Operation J as a stand-alone entity (i.e., there is a controlling entity/controlled entity relationship between the Local Government and Operation J), although it plans to integrate the operation with its other operations at a later date, which would remove the controlling entity/controlled entity relationship.

IE74. The transfer of Operation J is an entity combination that will need to be reported in both the Local Government's financial statements and those of the Local Government's Department of Social Services. As the analysis required will be the same for both entities, this example uses the term Local Government to refer to both entities.

IE75. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Local Government considers is whether it has gained control of operations as a result of the combination.

IE76. In this scenario, the Local Government gains:

(a) Power over Operation J;

(b) Exposure, or rights, to variable benefits from its involvement with Operation J; and

(c) The ability to use its power over Operation J to affect the nature or amount of the benefits from its involvement with the operation.

IE77. The Local Government concludes that, as a result of the entity combination, it has gained control of Operation J. The Local Government considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE78. In considering the economic substance of the entity combination, the Local Government notes that the combination results in a controlling entity/controlled entity relationship between the Local Government and Operation J. This is inconsistent with the economic substance of an amalgamation.

IE79. In considering the indicators relating to consideration, the Local Government notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the transfer agreement requires the Local Government to continue to provide the services. As Operation J does not recover all its costs from charges, the Local Government will need to provide the necessary resources to cover the shortfall. The Local Government considers that the cost of providing services for the agreed 10 years period is likely to be approximately equal to the value of the net assets received. It therefore considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. Although no consideration is transferred, this reflects the fair value of the combination. The Local Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE80. In considering the indicators relating to the decision-making process, the Local Government notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE81. Taking these factors together, the Local Government concludes that there is no evidence that economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 7: Variation

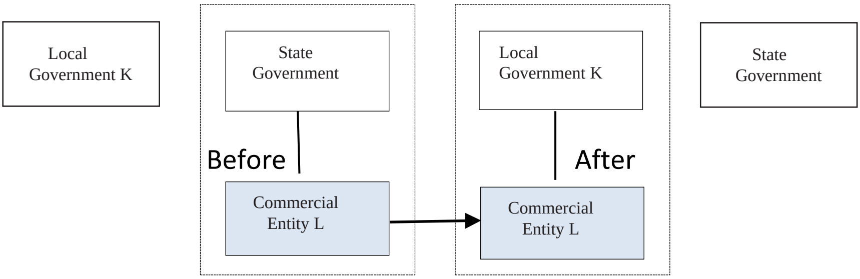
IE82. In scenario 7, the Local Government considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. This is the reason that no consideration is paid. In this variation, Operation J is assumed to cover its costs from charges. Consequently, a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be greater than zero.

IE83. In these circumstances, the fact that the combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation may provide evidence that the economic substance of the combination is that of an amalgamation.

IE84. In determining the classification of the entity combination, the Local Government considers which factor or factors are the most significant. The Local Government considers the fact that it has gained control of Operation J and the fact that the combination does not involve the integration of its operations and those of Operation J to be the most significant factors in determining the economic substance of the combination. This suggests that the combination should be classified as an acquisition. The indicators relating to the decision-making process support this classification; only the indicators relating to consideration suggest that the economic substance of the combination may be an amalgamation. The Local Government therefore classifies the combination as an acquisition.

Scenario 8: Transfer of a Commercial Entity between Levels of Government

IE85. The following diagram illustrates the transfer of a commercial entity between levels of government.



IE86. In this scenario, the State Government agrees to transfer Commercial Entity L to Local Government K. Local Government K pays consideration to the State Government in respect of the transfer. Following the combination, Local Government K operates Commercial Entity L as an arms-length, stand-alone entity.

IE87. The transfer of Commercial Entity L is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Local Government K considers is whether it has gained control of operations as a result of the combination.

IE88. In this scenario, Local Government K gains:

(a) Power over Commercial Entity L and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE89. Local Government K concludes that, as a result of the entity combination, it has gained control of Commercial Entity L. Local Government K considers the guidance in paragraphs 9–14 and AG19– AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE90. In considering the economic substance of the entity combination, Local Government K notes that the combination results in a controlling entity/controlled entity relationship between the Local Government and Commercial Entity L. This is inconsistent with the economic substance of an amalgamation. Local Government K also notes that the combination has commercial substance, which is suggestive of an acquisition.

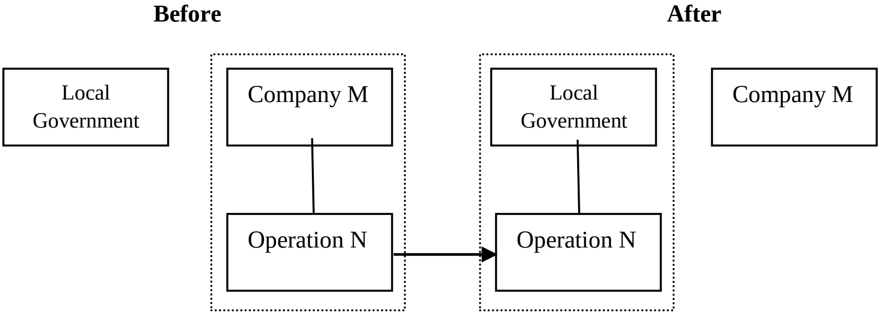
IE91. In considering the indicators relating to consideration, Local Government K notes that the entity combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Local Government K concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE92. In considering the indicators relating to the decision-making process, Local Government K notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE93. Taking these factors together, Local Government K concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 9: Purchase of a Private Sector Operation

IE94. The following diagram illustrates the purchase of a private sector operation by an entity.



IE95. In this scenario, Local Government purchases Operation N from Company M. Local Government pays the market value of Operation N, and Company M acts voluntarily. Following the purchase, Operation N is managed as an arms-length, stand-alone entity.

IE96. The purchase of Operation N is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Local Government considers is whether it has gained control of operations as a result of the combination.

IE97. In this scenario, Local Government gains:

(a) Power over Operation N;

(b) Exposure, or rights, to variable benefits from its involvement with Operation N; and

(c) The ability to use its power over Operation N to affect the nature or amount of the benefits from its involvement with that operation.

IE98. Local Government concludes that, as a result of the entity combination, it has gained control of Operation N. Local Government considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE99. In considering the economic substance of the entity combination, Local Government notes that the combination results in a controlling entity/ controlled entity relationship between Local Government and Operation N. This is inconsistent with the economic substance of an amalgamation. Local Government also notes that the combination has commercial substance, which is suggestive of an acquisition.

IE100. In considering the indicators relating to consideration, Local Government notes that the entity combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Local Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE101. In considering the indicators relating to the decision-making process, Local Government notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE102. Taking these factors together, Local Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 9: Variation

IE103. In scenario 9, Company M enters into the transaction voluntarily. In this variation, Local Government acquires Operation N through a compulsory purchase, e.g., for construction of metro line. The purchase is still effected at the market value of Operation N.

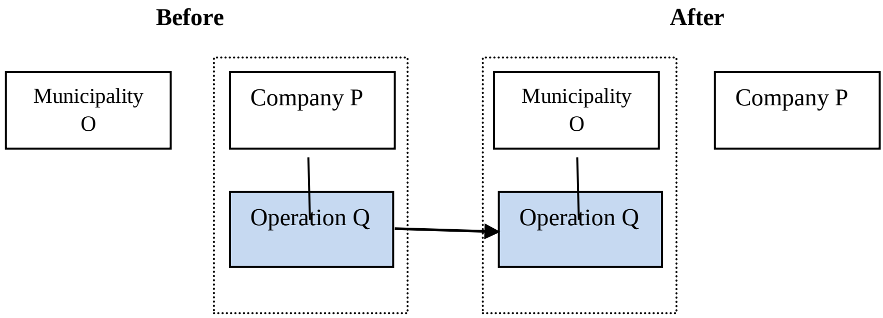
IE104. The change from a voluntary transaction to a compulsory purchase does not affect the assessments of control or the indicators related to consideration.

IE105. In considering the indicators relating to the decision-making process, Local Government notes that Company M does not act voluntarily. The fact that Local Government (a party to the combination) is able to impose the entity combination on Company M provides evidence that the economic substance of the combination is that of an acquisition.

IE106. Consequently, Local Government classifies the entity combination as an acquisition.

Scenario 10: Bargain Purchase

IE107. The following diagram illustrates a bargain purchase by an entity.



IE108. In this scenario, Municipality O purchases Operation Q from Company P in a bargain purchase. Company P is seeking to sell Operation Q quickly to release cash for its other operations, and is willing to accept a price below the market value of Operation Q for an early sale. In entering into the bargain purchase, Company P acts voluntarily. Following the purchase, Operation Q is managed as an arms-length, stand-alone entity by Municipality O.

IE109. The bargain purchase of Operation Q is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Municipality O considers is whether it has gained control of operations as a result of the combination.

IE110. In this scenario, Municipality O gains:

(a) Power over Operation Q;

(b) Exposure, or rights, to variable benefits from its involvement with Operation Q; and

(c) The ability to use its power over Operation Q to affect the nature or amount of the benefits from its involvement with that operation.

IE111. Municipality O concludes that, as a result of the entity combination, it has gained control of Operation Q. Municipality O considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE112. In considering the economic substance of the entity combination, Municipality O notes that the combination results in a controlling entity/ controlled entity relationship between Municipality O and Operation Q. This is inconsistent with the economic substance of an amalgamation. Municipality O also notes that the combination has commercial substance (even though the price paid was below the market price of Operation Q), which is suggestive of an acquisition.

IE113. In considering the indicators relating to consideration, Municipality O notes that the entity combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation, even though that price was below market value. Company P voluntarily accepted a lower price for a quick sale, and the purpose of the consideration paid was to provide Company P with the level of compensation for giving up its entitlement to the net assets of Operation Q that it was willing to accept. Municipality O concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE114. In considering the indicators relating to the decision-making process, Municipality O notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE115. Taking these factors together, Municipality O concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 10: Variation

IE116. In scenario 10, Company P enters into the transaction voluntarily. In this variation, Municipality O seizes Operation Q through a compulsory purchase. The purchase is still effected at a price below the market value of Operation Q. Company P would not have sold Operation Q for a price below market value voluntarily.

IE117. The change from a voluntary transaction to a compulsory purchase does not affect the assessment of control.

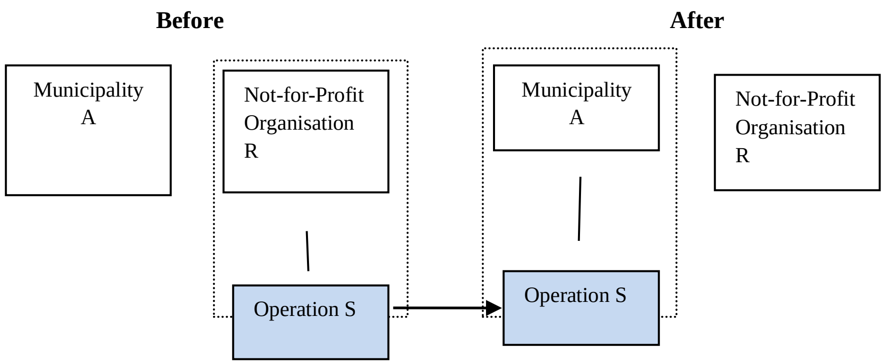
IE118. In considering the indicators relating to consideration, Municipality O notes that the entity combination includes consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the level of compensation is less than Company P would have accepted voluntarily. Consequently, these indicators provide only weak evidence that the economic substance of the combination is that of an acquisition, and greater reliance is placed on other factors.

IE119. In considering the indicators relating to the decision-making process, Municipality O notes that Company P does not act voluntarily. The fact that Municipality O (a party to the combination) is able to impose the entity combination on Company P provides evidence that the economic substance of the combination is that of an acquisition.

IE120. Taking all the factors into account, Municipality O classifies the entity combination as an acquisition.

Scenario 11: Donated Operations

IE121. The following diagram illustrates the receipt of a donated operation by an entity.



IE122. In this scenario, Not-for-Profit Organisation R, a charity providing education services, voluntarily transfers Operation S, a school, to the Municipality A at no cost. Not-for-Profit Organisation R does this because it considers that this will result in improved services to the public, and enable it to meet its objectives.

IE123. The donation of Operation S is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Municipality A considers is whether it has gained control of operations as a result of the combination.

IE124. In this scenario, the Municipality A gains:

(a) Power over Operation S;

(b) Exposure, or rights, to variable benefits from its involvement with Operation S; and

(c) The ability to use its power over Operation S to affect the nature or amount of the benefits from its involvement with that operation.

IE125. The Municipality A concludes that, as a result of the entity combination, it has gained control of Operation S. The Municipality A considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE126. In considering the economic substance of the entity combination, the Municipality A notes that the combination has commercial substance (even though no price was paid for Operation S), which is suggestive of an acquisition.

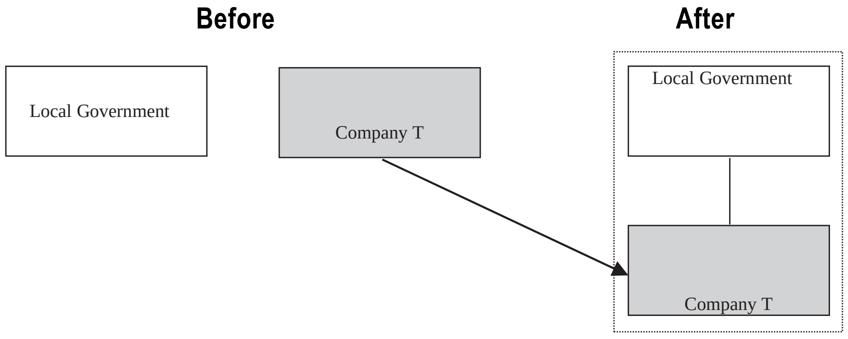
IE127. In considering the indicators relating to consideration, the Municipality A notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the reason for this is that Not-for-Profit Organisation R voluntarily surrendered those rights. The situation is similar to that of a bargain purchase. In a bargain purchase, a seller may be willing to accept a price below market value where this meets their needs, for example in enabling a quick sale. With a donated operation, the former owner is willing to transfer the operation for no consideration to their preferred counterparty. In this scenario, Not-for-Profit Organisation R is willing to transfer Operation S to the Municipality A because this will provide improved services to the public. Consequently, the Municipality A concludes that the indicators of consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE128. In considering the indicators relating to the decision-making process, the Municipality A notes that the entity combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE129. Taking these factors together, the Municipality A concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 12: Statutory Acquisition of a Private Sector Entity–Forced Seizure

IE130. The following diagram illustrates the statutory acquisition of a private sector entity by an entity by means of a forced seizure.



IE131. In this scenario, Local Government statutory acquires Company T through legislation. Local Government does not pay any consideration to the shareholders of Company T. Following the purchase, Company T is managed as an arms-length, stand-alone entity.

IE132. The statutory acquisition of Company T is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Local Government considers is whether it has gained control of operations as a result of the combination.

IE133. In this scenario, Local Government gains:

(a) Power over Company T;

(b) Exposure, or rights, to variable benefits from its involvement with Company T; and

(c) The ability to use its power over Company T to affect the nature or amount of the benefits from its involvement with Company T.

IE134. Local Government concludes that, as a result of the entity combination, it has gained control of Company T. Local Government considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE135. In considering the economic substance of the entity combination, Local Government notes that the combination results in a controlling entity/ controlled entity relationship between Local Government and Company T. This is inconsistent with the economic substance of an amalgamation. Local Government also notes that, by depriving the former shareholders of their rights to Company T, the combination has commercial substance, which is suggestive of an acquisition.

IE136. In considering the indicators relating to consideration, Local Government notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the former shareholders of Company T have had their entitlements extinguished through compulsion, which provides evidence that the economic substance of the combination is that of an acquisition. Local Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

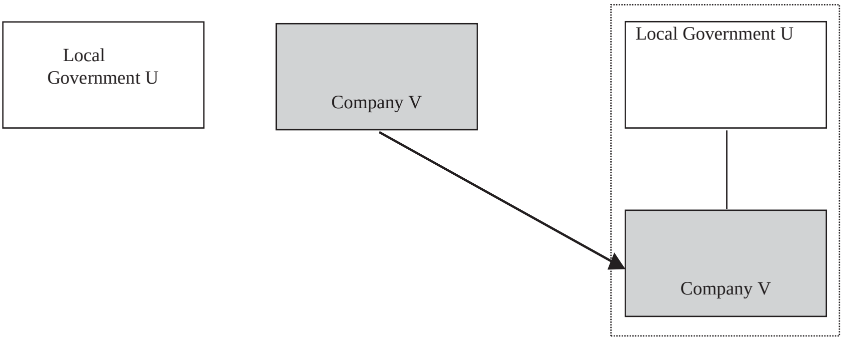
IE137. In considering the indicators relating to the decision-making process, Local Government notes that Company T does not act voluntarily. The fact that Local Government (a party to the combination) is able to impose the entity combination on Company T provides evidence that the economic substance of the combination is that of an acquisition.

IE138. Taking these factors together, Local Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 13: Statutory Acquisition of a Private Sector Entity–Bailout

IE139. The following diagram illustrates the statutory acquisition of a private sector entity by an entity by means of a bailout.

Before **After**



IE140. In this scenario, Local Government U statutory acquires Company V through legislation as a result of a bailout. Prior to the statutory acquisition, Company V was in financial distress. Local Government U does not pay any consideration to the shareholders of Company V but does assume Company V's net liabilities. Following the purchase, Company V is managed as an arms-length, stand-alone entity.

IE141. The statutory acquisition of Company V is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Local Government U considers is whether it has gained control of operations as a result of the combination.

IE142. In this scenario, Local Government U gains:

(a) Power over Company V;

(b) Exposure, or rights, to variable benefits from its involvement with Company V; and

(c) The ability to use its power over Company V to affect the nature or amount of the benefits from its involvement with Company V.

IE143. Local Government U concludes that, as a result of the entity combination, it has gained control of Company V. Local Government U considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE144. In considering the economic substance of the entity combination, Local Government U notes that the combination results in a controlling entity/controlled entity relationship between Local Government U and Company V. This is inconsistent with the economic substance of an amalgamation. Local Government U also notes that, by assuming the net liabilities of Company V, the combination has commercial substance, which is suggestive of an acquisition.

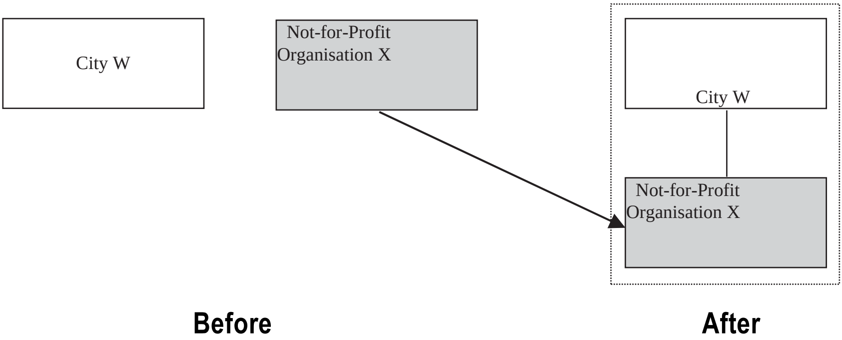
IE145. In considering the indicators relating to consideration, Local Government U notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, Company V has net liabilities that are assumed by Local Government U as part of the combination. The lack of consideration reflects the fair value of Company V rather than suggesting that the economic substance of the combination is that of an amalgamation. Local Government U concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE146. In considering the indicators relating to the decision-making process, Local Government U notes that Company V does not act voluntarily. The fact that Local Government U (a party to the combination) is able to impose the entity combination on Company V provides evidence that the economic substance of the combination is that of an acquisition.

IE147. Taking these factors together, Local Government U concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition.

Scenario 14: Statutory Acquisition *of a Not-For-Profit Organisation–Bailout*

IE148. The following diagram illustrates the statutory acquisition of a not-for-profit organisation by an entity by means of a bailout.



IE149. In this scenario, City W statutory acquires Not-for-Profit Organisation X (a charity) as a result of a voluntary bailout. Prior to the statutory acquisition, Not-for-Profit Organisation X was in financial distress and approached City W for support. City W assumes Not-for-Profit Organisation X's net liabilities. Following the purchase, Not-for-Profit Organisation X is managed as an arms-length, stand- alone entity.

IE150. The statutory acquisition of Not-for-Profit Organisation X is an entity combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question City W considers is whether it has gained control of operations as a result of the combination.

IE151. In this scenario, City W gains:

(a) Power over Not-for-Profit Organisation X;

(b) Exposure, or rights, to variable benefits from its involvement with Not-for-Profit Organisation X; and

(c) The ability to use its power over Not-for-Profit Organisation X to affect the nature or amount of the benefits from its involvement with Not-for-Profit Organisation X.

IE152. City W concludes that, as a result of the entity combination, it has gained control of Not-for-Profit Organisation X. City W considers the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE153. In considering the economic substance of the entity combination, City W notes that the combination results in a controlling entity/controlled entity relationship between City W and Not-for-Profit Organisation X. This is inconsistent with the economic substance of an amalgamation. City W also notes that, by assuming the net liabilities of Not-for-Profit Organisation X, the combination has commercial substance, which is suggestive of an acquisition.

IE154. In considering the indicators relating to consideration, City W notes that the entity combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. This is because there is no party with an entitlement to the net assets of Not-for-Profit Organisation X (i.e., there is no former owner) as the trustees have no entitlement to the net assets. This would usually provide evidence that the economic substance of the combination is that of an amalgamation. However, in this scenario Not-for-Profit Organisation X has net liabilities that are assumed by City W as part of the combination. By assuming the net liabilities, City W relieves the trustees of Not-for- Profit Organisation X of the responsibility for settling the liabilities, which is analogous to paying consideration. City W concludes, therefore, that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE155. In considering the indicators relating to the decision-making process, City W notes that Not-for-Profit Organisation X voluntarily initiated the combination. City W concludes that the indicators relating to decision-making do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE156. Taking these factors together, City W concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the entity combination should, therefore, be classified as an acquisition. Accounting for Amalgamations

Eliminating Transactions between the Combining Operations - Loans

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of ASLB 40

IE157. The following example illustrates the process for eliminating a loan between two combining operations not under common control.

IE158. On 30 June 20X5 Resulting Entity (RE) is formed by an amalgamation of two municipalities, Combining Operation A (COA) and Combining Operation B (COB). Four years previously, COA had provided COB with a ten year, fixed interest rate loan of Rs. 250. Interest on the loan is payable annually, with the principal repayable on maturity.

IE159. COB has recently experienced financial difficulties, and at the amalgamation date was in arrears on making the interest payments. The carrying amount of the financial liability in its financial statements at the amalgamation date is Rs.260.

IE160. Because of the arrears and the fact that COB was experiencing financial difficulties, COA had impaired the loan. The carrying amount of the financial asset (the loan) in its financial statements at the amalgamation date is Rs.200.

IE161. At the amalgamation date, RE eliminates the financial asset received from COA and the financial liability assumed from COB and credits components of net assets/equity with Rs.60, the difference between the carrying amounts of the financial asset and the financial liability associated with the loan.

Eliminating Transactions between the Combining Operations - Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of ASLB 40

IE162. The following example illustrates the process for eliminating a transfer between two combining operations not under common control.

IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had provided COB with a grant of Rs.700 to be used in the provision of an agreed number of training courses.

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognised a liability of Rs.350 in respect of its performance obligation, in accordance with ASLB 23, '*Revenue from Non-Exchange Transactions (Taxes and Transfers)'*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognise an asset in respect of the grant, but accounted for the full Rs.700 as an expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party. The resulting entity does not recognise a liability for the Rs. 350, but instead recognises this amount in net assets/ equity.

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26–27 and 36 of ASLB 40

IE166. The following example illustrates the process for adjusting the carrying amounts of the identifiable assets and liabilities of the combining operations to conform to the resulting entity's accounting policies in an amalgamation under common control.

IE167. On 1 October 20X5 RE is formed by an amalgamation of two local government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model in ASLB 17, '*Property, Plant and Equipment'*. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model in ASLB 17.

IE168. RE adopts an accounting policy of measuring property, plant and equipment using the revaluation model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.

IE169. On receiving the independent valuation for the items of property, plant and equipment previously controlled by COA, RE adjusts the carrying amounts of the items of property, plant and equipment as follows, with the corresponding entry being made to components of net assets/equity:

Class of Asset	Carrying Amount (Rs.)	Valuation (Rs.)	Adjustment (Rs.)
Land	17,623	18,410	787
Buildings	35,662	37,140	1,478
Vehicles	1,723	1,605	(118)

IE170. RE also reviews the carrying amounts of the items of property, plant and equipment previously controlled by COB to ensure the amounts are up to date as at 1 October 20X5. The review confirms the carrying amounts of the items of property, plant and equipment previously controlled by COB are up to date and that no adjustment is required.

IE171. RE recognises the items of property, plant and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph 67 of ASLB 17, RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

IE172-176. [Refer to Appendix 1]

Recognising and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37–39 of ASLB 40

IE177. The following example illustrates the accounting for recognising and measuring components of net assets/equity in an amalgamation.

IE178. On 1 June 20X4, a new municipality RE is formed by the amalgamation of operations COA and COB relating to two geographical areas of other municipalities, not previously under common control.

IE179. COB has previously performed services for COA for which it was to be paid Rs. 750. Payment was outstanding at the amalgamation date. This transaction formed part of the carrying amount of financial liabilities for COA and part of the carrying amount of financial assets for COB.

IE180. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE has adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE obtains an independent valuation for the items of property, plant and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant and equipment by Rs. 5,750 and makes the corresponding adjustment to components of net assets/equity.

IE181. The carrying amounts of the assets, liabilities and components of net assets/equity transferred are summarised below. Adjustments to eliminate transactions between COA and COB (see paragraph 22), and to conform the carrying amounts to the resulting entity's accounting policies are also shown.

	COA	COB	Elimination Adjustments	Accounting Policy Adjustments	RE Opening Balance
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Financial Assets	11,248	17,311	(750)		27,809
Inventory	1,072	532			1,604
Property, plant and equipment	5,663	12,171		5,750	23,584

Intangible assets	0	137			137
Financial liabilities	(18,798)	(20,553)	750		(38,601)
Total net assets/ (liabilities)	(815)	9,598		5,750	14,533
Revaluation surplus	0	6,939		5,750	12,689
Accumulated surpluses or deficits	(815)	2,659			1,844
Total net assets/equity	(815)	9,598	0	5,750	14,533

IE182. In accordance with paragraphs 37–39 of ASLB 40, RE may present net assets/ equity as either a single opening balance of Rs.14,533 or as the separate components shown above.

IE183. The other municipalities that, prior to the amalgamation, controlled COA and COB would derecognise the assets, liabilities and components of net assets/ equity transferred to RE in accordance with other ASLBs.

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40–44 of ASLB 40.

IE184. If the initial accounting for an amalgamation is not complete at the end of the financial reporting period in which the amalgamation occurs, paragraph 40 of ASLB 40 requires the resulting entity to recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity recognises adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognised as of that date. Paragraph 43 of ASLB 40 requires the resulting entity to recognise such adjustments as if the accounting for the amalgamation had been completed at the amalgamation date.

Measurement period adjustments are not included in surplus or deficit.

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the revaluation model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the cost model. RE adopts an accounting policy of measuring land and buildings using the revaluation model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorised for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognised provisional values for the land and buildings of Rs. 150,000 and Rs. 275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as Rs. 160,000 and the amalgamation-date value of the buildings as Rs. 365,000.

IE186. In its financial statements for the year ended 31 December 20X4, RE retrospectively adjusts the 20X3 prior year information as follows:

(a) The carrying amount of the land as of 31 December 20X3 is increased by Rs.10,000. As the land has an indefinite life, no depreciation is charged.

(b) The carrying amount of the buildings as of 31 December 20X3 is increased by Rs. 89,500. That adjustment is measured as the valuation adjustment at the amalgamation date of Rs. 90,000 less the additional depreciation that would have been recognised if the asset's value at the amalgamation date had been recognised from that date (Rs.500 for one months' depreciation).

(c) An adjustment of Rs. 100,000 is recognised in net assets/equity as of 31 December 20X3.

(d) Depreciation expense for 20X3 is increased by Rs.500.

IE187. In accordance with paragraph 56 of ASLB 40, RE discloses:

(a) In its 20X3 financial statements, that the initial accounting for the amalgamation has not been completed because the valuation of land and buildings previously controlled by COB has not yet been received.

(b) In its 20X4 financial statements, the amounts and explanations of the adjustments to the provisional values recognised during the current reporting period. Therefore, RE discloses that the 20X3 comparative information is adjusted retrospectively to increase the value of the land and buildings by Rs. 99,500 (Rs. 100,000 at the amalgamation date), an increase in depreciation expense of Rs. 500 and an increase in net assets/equity of Rs. 100,000.

Subsequent Measurement of a Transfer Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

Illustrating the Consequences of Applying the Requirements in Paragraphs 48 and AG61–AG63 of ASLB 40.

IE188. The following example illustrates the subsequent accounting for a transfer received by a combining operation on the basis of criteria that may change as a result of an amalgamation.

IE189. On 1 January 20X3, Central government provides an annual grant to those municipalities where the average household income is below a threshold. On 1 June 20X3, RE, a new municipality, is formed by the amalgamation of two existing municipalities, COA and COB. COA had previously received a grant of Rs.1,000, based on its average household income. COB has received no grant as its average household income was above the threshold.

IE190. Following the amalgamation on 1 June 20X3, the average household income of RE is above the threshold that the Central Government had set when allocating grants.

IE191. On 1 July 20X3, the Central Government requires RE to repay a portion (Rs.200) of the grant previously paid to COA. RE recognises a liability and an expense of Rs.200 on 1 July 20X3.

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of ASLB 40.

IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of ASLB 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph

reference

54(a)–(c) On 30 June 20X2 RE was formed by an amalgamation of the former municipalities COA and COB. Neither COA nor COB gained control of RE in the amalgamation. The amalgamation was mutually agreed by COA and COB, and enacted by the Central Government through legislation. The amalgamation aims to reduce costs through economies of scale, and to provide improved services to residents.

54(d) **Amounts recognised for each major class of assets and liabilities transferred as at 30 June 20X2**

	Rs.
Financial assets	1,701
Inventory	5
Property, plant and equipment	74,656
Intangible assets	42
Financial liabilities	(2,001)
Total net assets	74,403

54(e) The following adjustments have been made to the carrying amounts of assets and liabilities recorded by COA and COB as at 30 June 20X2 prior to the amalgamation:

Paragraph reference		Original Amount (Rs.)	Adjustment (Rs.)	Revised Amount (Rs.)
54(e)(i)	Restatement of financial assets recorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant and equipment recorded by COA to measure the items using the revaluation model	12,116	17,954	30,070

54(f) **Amounts recognised in Net assets/equity as at 30 June 20X2**

	COA (Rs.)	**COB (Rs.)**	**Adjust-ment (Rs.)**	**RE (Rs.)**
Revaluation surplus	0	18,332	17,954	36,286
Accumulated surpluses or deficits	12,047	26,070	0	38,117
Total net assets/equity	12,047	44,402	17,954	74,403

Paragraph reference

54(h) At the time these financial statements were authorised for issue, the last reporting date for COA and COB was 31 December 20X1. The revenue and expense, and surplus or deficit for COA and COB from 1 January 20X2 to the amalgamation date (30 June 20X2), and the amounts reported by COA and COB for each major class of assets and liabilities, and for components of net assets/equity, is shown below:

		COA (Rs.)	**COB** (Rs.)
54(h)(i)	**Revenue**		
	Property taxes	45,213	70,369
	Revenue from exchange transactions	2,681	25,377
	Transfers from other government entities	32,615	19,345
	Total revenue	80,509	115,091
54(h)(i)	**Expenses**		
	Wages, salaries and employee benefits	(51,263)	(68,549)

	Grants and other transfer payments	(18,611)	(26,445)
	Supplies and consumables used	(7,545)	(13,391)
	Depreciation expense	(677)	(2,598)
	Impairment of property, plant and equipment	(17)	(33)
	Finance costs	(2)	(3)
	Total expenses	(78,115)	(111,019)
54(h)(i)	**Surplus or (deficit) for the period 1 January 20X2 to 30 June 20X2**	2,394	4,072

54(h)(ii)	**Assets as at 30 June 20X2**		
	Financial assets	822	904
	Inventory	0	5
	Property, plant and equipment	12,116	44,586
	Intangible assets	42	0
	Total Assets	12,980	45,495
54(h)(ii)	**Liabilities as at 30 June 20X2**		
	Financial liabilities	(933)	(1,093)
	Total liabilities	(933)	(1,093)
54(h)(iii)	**Net assets as at 30 June 20X2**	12,047	44,402
	Net assets/equity as at 30 June 20X2		

	Revaluation surplus	0	18,332
	Accumulated surpluses or Deficits	12,047	26,070
	Total net assets/equity as at 30 June 20X2	12,047	44,402

In considering the disclosures related to an amalgamation, an entity may find it helpful to refer to the discussion of materiality in ASLB 1, '*Presentation of Financial Statements*'.

Accounting for Acquisitions Reverse Acquisitions

Illustrating the Consequences of Recognising a Reverse Acquisition by Applying Paragraphs AG66–AG71 of ASLB 40

IE193. This example illustrates the accounting for a reverse acquisition in which Entity B, the legal controlled entity, acquires Entity A, the entity issuing equity instruments and therefore the legal controlling entity, in a reverse acquisition on 30 September 20X6. This example ignores the accounting for any income tax effects.

IE194. The balance sheet of Entity A and Entity B immediately before the acquisition are:

	Entity A (legal controlling entity, accounting acquired operation)	**Entity B (legal controlled entity, accounting acquirer)**
	Rs.	Rs.
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		

Accumulated surplus or deficit	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

IE195. This example also uses the following information:

(a) On 30 September 20X6 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. Entity B's sole shareholder, a local government, exchanges its shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

(b) The fair value of each ordinary share of Entity B at 30 September 20X6 is Rs.40. The quoted market price of Entity A's ordinary shares at that date is Rs.16.

(c) The fair values of Entity A's identifiable assets and liabilities at 30 September 20X6 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at 30 September 20X6 is Rs. 1,500.

Calculating the Fair Value of the Consideration Transferred

IE196. As a result of Entity A (legal controlling entity, accounting acquired operation) issuing 150 ordinary shares, Entity B's shareholder (the local government) owns 60 percent of the issued shares of the combined entity (i.e., 150 of 250 issued shares). The remaining 40 percent are owned by Entity A's shareholders. If the acquisition had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity B's shareholder (the local government) would then own 60 of the 100 issued shares of Entity B—60 percent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is Rs. 1,600 (40 shares with a fair value per share of Rs. 40).

IE197. The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted price of Entity A's shares in the principal (or most advantageous) market for the shares provides a more reliable basis for measuring the consideration effectively transferred than the fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares—100 shares with a fair value per share of Rs. 16.

Measuring Goodwill

IE198. Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognised identifiable assets and liabilities, as follows:

	Rs.	Rs.
Consideration effectively transferred		1,600
Net recognised values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	
Non-current liabilities	(400)	(1,300)
Goodwill		300

Consolidated Balance Sheet at 30 September 20X6

IE199. The consolidated balance sheet immediately after the acquisition is:

	Rs.
Current assets [Rs. 700 + Rs. 500]	1,200
Non-current assets [Rs. 3,000 + Rs. 1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [Rs. 600 + Rs. 300]	900
Non-current liabilities [Rs. 1,100 + Rs. 400]	1,500
Total liabilities	2,400
Shareholders' equity	
Accumulated surplus or deficit	1,400
Issued equity	
250 ordinary shares [Rs. 600 + Rs. 1,600]	2,200
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE200. The amount recognised as issued equity interests in the consolidated financial statements (Rs. 2,200) is determined by adding the issued equity of the legal controlled entity immediately before the acquisition (Rs. 600) and the fair value of the consideration effectively transferred (Rs. 1,600). However, the equity structure appearing in the consolidated financial statements (i.e., the number and type of equity interests issued) must reflect the equity structure of the legal controlling entity, including the equity interests issued by the legal controlling entity to effect the combination.

Non-Controlling Interest

IE201. Assume the same facts as above, except that Entity B has more than one shareholder, and that only 56 of Entity B's 60 ordinary shares are exchanged. Because Entity A issues 2.5 shares in exchange for each ordinary share of Entity B, Entity A issues only 140 (rather than 150) shares. As a result, Entity B's shareholders own 58.3 percent of the issued shares of the combined entity (140 of 240 issued shares). The fair value of the consideration transferred for Entity A, the accounting acquired operation, is calculated by assuming that the combination had been effected by Entity B issuing additional ordinary shares to the shareholders of Entity A in exchange for their ordinary shares in Entity A. That is because Entity B is the accounting acquirer, and paragraph AG67 of ASLB 40 requires the acquirer to measure the consideration exchanged for the accounting acquired operation.

IE202. In calculating the number of shares that Entity B would have had to issue, the non-controlling interest is excluded from the calculation. The majority shareholder (the government) owns 56 shares of Entity B. For that to represent a 58.3 percent equity interest, Entity B would have had to issue an additional 40 shares. The majority shareholder (the government) would then own 56 of the 96 issued shares of Entity B and, therefore, 58.3 percent of the combined entity. As a result, the fair value of the consideration transferred for Entity A, the accounting acquired operation, is Rs. 1,600 (i.e., 40 shares, each with a fair value of Rs. 40). That is the same amount as when Entity B's sole shareholder tenders all 60 of its ordinary shares for exchange. The recognised amount of the group's interest in Entity A, the accounting acquired operation, does not change if some of Entity B's shareholders do not participate in the exchange.

IE203. The non-controlling interest is represented by the four shares of the total 60 shares of Entity B that are not exchanged for shares of Entity A. Therefore, the non-controlling interest is 6.7 percent. The non-controlling interest reflects the proportionate interest of the non-controlling shareholders in the pre-combination carrying amounts of the net assets of Entity B, the legal controlled entity. Therefore, the consolidated balance sheet is adjusted to show a non-controlling interest of 6.7 percent of the pre-combination carrying amounts of Entity B's net assets (i.e., Rs. 134 or 6.7 percent of Rs. 2,000).

IE204. The consolidated balance sheet at 30 September 20X6, reflecting the non-controlling interest, is as follows:

	Rs.
Current assets [Rs. 700 + Rs. 500]	1,200
Non-current assets [Rs. 3,000 + Rs. 1,500]	4,500
Goodwill	Rs. 300
Total assets	6,000
Current liabilities [Rs. 600 + Rs. 300]	900
Non-current liabilities [Rs. 1,100 + Rs. 400]	1,500
Total liabilities	2,400
Shareholders' equity Accumulated surplus or deficit [Rs. 1,400 × 93.3 percent]	1,306
Issued equity 240 ordinary shares [CU560 + Rs. 1,600]	2,160
Non-controlling interest	134
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE205. The non-controlling interest of Rs. 134 has two components. The first component is the reclassification of the non-controlling interest's share of the accounting acquirer's retained earnings immediately before the acquisition (Rs. 1,400 × 6.7 percent or Rs. 93.80). The second component represents the reclassification of the non-controlling interest's share of the accounting acquirer's issued equity (Rs. 600 × 6.7 percent or Rs. 40.20).

Identifiable Intangible Assets in an Acquisition

Illustrating the Consequences of Applying Paragraphs 64–68 and AG75–AG84 of ASLB 40

IE206. The following are examples of identifiable intangible assets acquired in an acquisition. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.

IE207. Intangible assets identified as having a 'binding arrangement' basis are those that arise from binding arrangements (including rights from contracts or other legal rights). Those designated as having a 'no binding arrangement' basis do not arise from binding arrangements but are separable. Intangible assets identified as having a binding arrangement basis might also be separable but separability is not a necessary condition for an asset to meet the binding arrangement criterion.

Marketing-Related Intangible Assets

IE208. Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

Class	**Basis**
Trademarks, trade names, service marks, collective marks and certification marks	Binding arrangement
Trade dress (unique color, shape or package design)	Binding arrangement
Newspaper mastheads	Binding arrangement
Internet domain names	Binding arrangement
Non-competition agreements	Binding arrangement

Trademarks, Trade Names, Service Marks, Collective Marks and Certification Marks

IE209. Trademarks are words, names, symbols or other devices used in trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.

IE210. Trademarks, trade names, service marks, collective marks and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce or by other means. If it is protected legally through registration or other means, a trademark or other mark acquired in an acquisition is an intangible asset that meets the binding arrangement criterion. Otherwise, a trademark or other mark acquired in an acquisition can be recognised separately from goodwill if the separability criterion is met, which normally it would be.

IE211. The terms *brand* and *brand name*, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. ASLB 40 does not preclude an entity from recognising, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

Internet Domain Names

IE212. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired in an acquisition meets the binding arrangement criterion.

IE213-221. [Refer to Appendix 1]

Artistic-Related Intangible Assets

IE222. Examples of artistic-related intangible assets are:

Class	**Basis**
Plays, operas and ballets	Binding arrangement
Books, magazines, newspapers and other literary works	Binding arrangement
Musical works such as compositions, song lyrics and advertising jingles	Binding arrangement
Pictures and photographs	Binding arrangement
Video and audio-visual material, including motion pictures or films, music videos and television programs	Binding arrangement

IE223. Artistic-related assets acquired in an acquisition are identifiable if they arise from binding arrangements (including rights from contracts) or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognising a copyright intangible asset and any related assignments or license agreements as a single asset, provided they have similar useful lives.

Binding Arrangement-Based Intangible Assets

IE224. Binding arrangement-based intangible assets represent the value of rights that arise from binding arrangements. Binding arrangements with customers are one type of binding arrangement-based intangible asset. If the terms of a binding arrangement give rise to a liability (for example, if the terms of an operating lease or binding arrangement with a customer are unfavorable relative to market terms), the acquirer recognises it as a liability assumed in the acquisition. Examples of binding arrangement-based intangible assets are:

Class	**Basis**
Licensing, royalty and standstill agreements	Binding arrangement
Advertising, construction, management, service or supply binding arrangements	Binding arrangement
Lease agreements (whether the acquired operation is the lessee or the lessor)	Binding arrangement
Construction permits	Binding arrangement
Franchise agreements	Binding arrangement
Operating and broadcast rights	Binding arrangement
Servicing binding arrangements, such as mortgage servicing binding arrangements	Binding arrangement
Binding arrangements for employment	Binding arrangement
Use rights, such as drilling, water, air, timber cutting and route authorities	Binding arrangement

Servicing Binding Arrangements, Such as Mortgage Servicing Binding Arrangements

IE225. Binding arrangements to service financial assets are one type of binding arrangement-based intangible asset. Although servicing is inherent in all financial assets, it becomes a distinct asset (or liability) by one of the following:

(a) When separated in the binding arrangement from the underlying financial asset by sale or securitisation of the assets with servicing retained;

(b) Through the separate purchase and assumption of the servicing.

IE226. If mortgage loans, credit card receivables or other financial assets are acquired in an acquisition with servicing retained, the inherent servicing rights are not a separate intangible asset because the fair value of those servicing rights is included in the measurement of the fair value of the acquired financial asset.

Binding Arrangements for Employment

IE227. Binding arrangements for employment that are beneficial binding arrangements from the perspective of the employer because the pricing of those binding arrangements is favorable relative to market terms are one type of binding arrangement-based intangible asset.

Use Rights

IE228. Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are binding arrangement-based intangible assets to be accounted for separately from goodwill. Other use rights may have characteristics of tangible assets rather than of intangible assets. An acquirer should account for use rights on the basis of their nature.

Technology-Based Intangible Assets

IE229. Examples of technology-based intangible assets are:

Class	**Basis**
Patented technology	Binding arrangement

Computer software and mask works	Binding arrangement
Unpatented technology	No binding arrangement
Databases, including title plants	No binding arrangement
Trade secrets, such as secret formulas, processes and recipes	Binding arrangement

Computer Software and Mask Works

IE230. Computer software and program formats acquired in an acquisition that are protected legally, such as by patent or copyright, meet the binding arrangement criterion for identification as intangible assets.

IE231. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection that are acquired in an acquisition meet the binding arrangement criterion for identification as intangible assets.

Databases, Including Title Plants

IE232. Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired in an acquisition and protected by copyright meets the binding arrangement criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as lists of service users, or specialised information, such as scientific data or credit information. Databases that are not protected by copyright can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired in an acquisition meets the separability criterion.

IE233. Title plants constitute a historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired in an acquisition meet the separability criterion.

Trade Secrets, Such as Secret Formulas, Processes and Recipes

IE234. A trade secret is 'information, including a formula, pattern, recipe, compilation, program, device, method, technique, or process that (a) derives independent economic value, actual or potential, from not being generally known and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.' If the future economic benefits from a trade secret acquired in an acquisition are legally protected, that asset meets the binding arrangement criterion. Otherwise, trade secrets acquired in an acquisition are identifiable only if the separability criterion is met, which is likely to be the case.

Measurement of Non-Controlling Interest (NCI) in an Acquisition

Illustrating the Consequences of Applying Paragraph 73 of ASLB 40.

IE235. The following examples illustrate the measurement of components of NCI at the acquisition date in an acquisition.

Measurement of NCI Including Preference Shares

IE236. TE has issued 100 preference shares, which are classified as equity. The preference shares have a nominal value of Re. 1 each. The preference shares give their holders a right to a preferential dividend in priority to the payment of any dividend to the holders of ordinary shares. Upon liquidation of TE, the holders of the preference shares are entitled to receive out of the assets available for distribution the amount of Re. 1 per share in priority to the holders of ordinary shares. The holders of the preference shares do not have any further rights on liquidation.

IE237. AE acquires all ordinary shares of TE. The transaction gives AE control of TE, and an analysis of the economic substance of the combination using the guidance in paragraphs 9–14 and AG19–AG50 of ASLB 40 confirms the transaction is an acquisition. The acquisition-date fair value of the preference shares is CU120.

IE238. Paragraph 73 of ASLB 40 states that for each acquisition, the acquirer should measure at the acquisition date components of non-controlling interest in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the acquired operation's recognised amounts of the identifiable net assets. All other components of non-controlling interest must be measured at their acquisition-date fair value, unless another measurement basis is required by ASLBs.

IE239. The non-controlling interests that relate to TE's preference shares do not qualify for the measurement choice in paragraph 73 of ASLB 40 because they do not entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. The acquirer measures the preference shares at their acquisition-date fair value of Rs. 120.

First Variation

IE240. Suppose that upon liquidation of TE, the preference shares entitle their holders to receive a proportionate share of the assets available for distribution. The holders of the preference shares have equal right and ranking to the holders of ordinary shares in the event of liquidation. Assume that the acquisition-date fair value of the preference shares is now Rs. 160 and that the proportionate share of TE's recognised amounts of the identifiable net assets that is attributable to the preference shares is Rs. 140.

IE241. The preference shares qualify for the measurement choice in paragraph 73 of ASLB 40. AE can choose to measure the preference shares either at their acquisition-date fair value of Rs. 160 or at their proportionate share in the acquired operation's recognised amounts of the identifiable net assets of Rs. 140.

IE242-250. [Refer to Appendix 1]

Gain on a Bargain Purchase in an Acquisition

Illustrating the Consequences of Recognising and Measuring a Gain from a Bargain Purchase in an Acquisition by Applying Paragraphs 85–90 of ASLB 40

IE251. The following example illustrates the accounting for an acquisition in which a gain on a bargain purchase is recognised.

IE252. On 1 January 20X5 AE acquires 80 percent of the equity interests of TE, a private entity, in exchange for cash of Rs. 150. Because the former owners of TE needed to dispose of their investments in TE by a specified date, they did not have sufficient time to market TE to multiple potential buyers. The management of AE initially measures the separately recognisable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of ASLB 40. The identifiable assets are measured at Rs. 250 and the liabilities assumed are measured at Rs. 50. AE engages an independent consultant, who determines that the fair value of the 20 percent non-controlling interest in TE is Rs. 42.

IE253. The amount of TE's identifiable net assets (Rs. 200, calculated as Rs. 250 – Rs. 50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TE. Therefore, AE reviews the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TE and the consideration transferred. After that review, AE decides that the procedures and resulting measures were appropriate. AE measures the gain on its purchase of the 80 percent interest as follows:

Rs. Amount of the identifiable net assets acquired		
(Rs. 250 – Rs. 50)		200
Less: Fair value of the consideration transferred for AE's 80 percent interestin TE; plus	150	
Fair value of non-controlling interest in TE	42	
		192
Gain on bargain purchase of 80 percent interest		8

IE254. AE would record its acquisition of TE in its consolidated financial statements as follows:

	Rs.	**Rs.**
Dr Identifiable assets acquired	250	
Cr Cash		150

Cr Liabilities assumed	50
Cr Gain on the bargain purchase	8
Cr Equity—non-controlling interest in TE	42

IE255. If the acquirer chose to measure the non-controlling interest in TE on the basis of its proportionate interest in the identifiable net assets of the acquired operation, the recognised amount of the non-controlling interest would be Rs. 40 (Rs. 200 × 0.20). The gain on the bargain purchase then would be Rs. 10 (Rs. 200 – (Rs. 150 + Rs. 40)).

Measurement Period in an Acquisition

Illustrating the Consequences of Applying Paragraphs 103–108 of ASLB 40.

IE256. If the initial accounting for an acquisition is not complete at the end of the financial reporting period in which the combination occurs, paragraph 103 of ASLB 40 requires the acquirer to recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognises adjustments to the provisional amounts needed 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. Paragraph 107 of ASLB 40 requires the acquirer to recognise such adjustments as if the accounting for the acquisition had been completed at the acquisition date. Measurement period adjustments are not included in surplus or deficit.

IE257. Suppose that AE acquires TE on 30 September 20X7. AE seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and the valuation was not complete by the time AE authorised for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AE recognised a provisional fair value for the asset of Rs. 30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AE received the independent valuation, which estimated the asset's acquisition-date fair value as Rs. 40,000.

IE258. In its financial statements for the year ended 31 December 20X8, AE retrospectively adjusts the 20X7 prior year information as follows:

(a) The carrying amount of property, plant and equipment as of 31 December 20X7 is increased by Rs. 9,500. That adjustment is measured as the fair value adjustment at the acquisition date of Rs. 10,000 less the additional depreciation that would have been recognised if the asset's fair value at the acquisition date had been recognised from that date (Rs. 500 for three months' depreciation).

(b) The carrying amount of goodwill as of 31 December 20X7 is decreased by Rs. 10,000.

(c) Depreciation expense for 20X7 is increased by Rs. 500.

IE259. In accordance with paragraph 124 of ASLB 40, AE discloses:

(a) In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the valuation of property, plant and equipment has not yet been received.

(b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognised during the current reporting period. Therefore, AE discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by Rs. 9,500, offset by a decrease to goodwill of Rs. 10,000 and an increase in depreciation expense of Rs. 500.

Determining what is Part of the Acquisition Transaction

Settlement of a Pre-Existing Relationship – loan

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of ASLB 40.

IE260. AE provides TE with a five year, fixed rate loan of Rs. 100. Interest is payable quarterly, with the principal repaid on maturity. With two years remaining under the loan agreement, AE acquires TE.

IE261. Included in the total fair value of TE is a Rs. 90 financial liability for the fair value of the loan arrangement with AE. At the acquisition date, the carrying amount of the corresponding financial asset in AE's financial statements (the amortised cost of the loan) is Rs. 100.

IE262. In this example, AE calculates a loss of Rs. 10. The loss is calculated as the difference between the fair value of the financial liability assumed and carrying amount of the corresponding financial asset previously recognised by AE. In its consolidated financial statements, AE will eliminate its financial asset (Rs. 100) against the fair value of TE's financial liability (Rs. 90), the difference representing the loss to AE.

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of ASLB 40.

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE provided TE with a grant of Rs. 800 to be used in the provision of an agreed number of training courses.

IE264. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the acquisition date, TE had delivered a quarter of the agreed number of courses, and recognised a liability of Rs. 600 in respect of its performance obligation, in accordance with ASLB 23. Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognise an asset in respect of the grant, but accounted for the full Rs. 800 as an expense.

IE265. In this example, AE calculates a gain of Rs. 600. The gain is calculated as the liability assumed that is derecognised because, as a result of the acquisition, there is no longer an obligation owed to a third party.

IE266. In this example, no corresponding asset had been recognised by AE; if AE had previously recognised a corresponding asset, this would be derecognised at the acquisition date, and the derecognised amount would be included in the calculation of the gain or loss.

Settlement of a Pre-Existing Relationship – Supply Contract

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of ASLB 40.

IE267. AE purchases electronic components from TE under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AE could purchase similar electronic components from another supplier. The supply contract allows AE to terminate the contract before the end of the initial five-year term but only by paying a Rs. 6 million penalty. With three years remaining under the supply contract, AE pays Rs. 50 million to acquire TE, which is the fair value of TE based on what other market participants would be willing to pay.

IE268. Included in the total fair value of TE is Rs. 8 million related to the fair value of the supply contract with AE. Rs. 8 million represents a Rs. 3 million component that is 'at market' because the pricing is comparable to pricing for current market transactions for the same or similar items and a Rs. 5 million component for pricing that is unfavorable to AE because it exceeds the price of current market transactions for similar items. TE has no other identifiable assets or liabilities related to the supply contract, and AE has not recognised any assets or liabilities related to the supply contract before the acquisition.

IE269. In this example, AE calculates a loss of Rs. 5 million (the lesser of the Rs. 6 million stated settlement amount and the amount by which the contract is unfavorable to the acquirer) separately from the acquisition. The Rs. 3 million 'at-market' component of the contract is part of goodwill.

IE270. Whether AE had recognised previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognised as a gain or loss for the effective settlement of the relationship. Suppose that ASLBs had required AE to recognise a Rs. 6 million liability for the supply contract before the acquisition. In that situation, AE recognises a Rs. 1 million settlement gain on the contract in surplus or deficit at the acquisition date (the Rs. 5 million measured loss on the contract less the Rs. 6 million loss previously recognised). In other words, AE has in effect settled a recognised liability of Rs. 6 million for Rs. 5 million, resulting in a gain of Rs. 1 million.

Contingent Payments to Employees in an Acquisition

Illustrating the Consequences of Applying Paragraphs 109–110, AG98 and AG102– AG103 of ASLB 40.

IE271. TE appointed a candidate as its new CEO under a ten-year contract. The contract required TE to pay the candidate Rs. 5 million if TE is acquired before the contract expires. AE acquires TE eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.

IE272. In this example, TE entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus, there is no evidence that the agreement was arranged primarily to provide benefits to AE or the combined entity. Therefore, the liability to pay Rs. 5 million is included in the application of the acquisition method.

IE273. In other circumstances, TE might enter into a similar agreement with CEO at the suggestion of AE during the negotiations for the acquisition. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AE or the combined entity rather than TE or its former owners. In that situation, AE accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or an Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

Illustrating the Consequences of Applying Paragraphs 114 and AG109– AG111 of ASLB 40.

IE274. The following example illustrates the subsequent accounting for a transfer received by an acquirer on the basis of criteria that may change as a result of an acquisition.

IE275. On 1 January 20X6, a Central Government provides an annual grant to those municipalities where their revenue per head of population is below a threshold. On 1 June 20X3 AE, a municipality, acquires TE, a shopping complex that will generate revenue for AE. AE had previously received a grant of Rs. 500, based on its revenue per head of population.

IE276. As a result of its acquisition of TE on 1 June 20X3, the revenue per head of population of AE increases above the threshold that the government had set when allocating grants.

IE277. On 1 July 20X3, the Central Government requires AE to repay a portion (Rs. 100) of the grant previously received by AE. AE recognises a liability and an expense of Rs. 100 on 1 July 20X3.

Disclosure Requirements Relating to Acquisitions

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 119–125 of ASLB 40.

IE278. The following example illustrates some of the disclosure requirements relating to acquisitions; it is not based on an actual transaction. The example assumes that AE is an entity with responsibility for healthcare in its region and that TE is a listed entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph reference	
120(a)–(d)	On 30 June 20X2 AE acquired 75 percent of the ordinary shares of TE and obtained control of TE. An analysis of the economic substance of the combination confirms the transaction is an acquisition. TE is a provider of medical supplies. As a result of the acquisition, AE is expected to deliver improved healthcare to its residents. It also expects to reduce costs through economies of scale.
120(e)	The goodwill of Rs. 2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AE and TE.

The following table summarises the consideration paid for TE and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TE.

At 30 June 20X2

	Consideration	**Rs.**
120(f)(i)	Cash	11,000
120(f)(iii); 120(g)(i)	Contingent consideration arrangement	1,000
120(f)	**Total consideration transferred**	12,000
120(m)	**Acquisition-related costs** (included in selling, general and administrative expenses in AE's statement of income and expenditure for the year ended 31 December 20X2)	1,250
120(i)	**Recognised amounts of identifiable assets acquired and liabilities assumed**	
	Financial assets	3,500
	Inventory	1,000
	Property, plant and equipment	10,000
	Property, plant and equipment	10,000
	Identifiable intangible assets	3,300
	Financial liabilities	(4,000)
	Contingent liability	(1,000)
	Total identifiable net assets	12,800
120(p)(i)	**Non-controlling interest in TE**	(3,300)
	Goodwill	2,500
		12,000

120(f)(iii) The contingent consideration
120 (g) arrangement requires AE to pay the
124 (b) former owners of TE 5 percent of the

revenues of XE, an unconsolidated equity investment owned by TE, in excess of Rs. 7,500 for 20X3, up to a maximum amount of Rs. 2,500 (undiscounted).

The potential undiscounted amount of all future payments that AE could be required to make under the contingent consideration arrangement is between Rs. 0 and Rs. 2,500.

Paragraph reference	
	The fair value of the contingent consideration arrangement of Rs. 1,000 was estimated by applying an income approach. Key assumptions include a discount rate range of 20–25 percent and assumed probability- adjusted revenues in XE of Rs. 10,000–20,000.
	As of 31 December 20X2, neither the amount recognised for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.
	The fair value of the financial assets acquired includes receivables with a fair value of Rs. 2,375. The gross amount due under the contracts is Rs. 3,100, of which Rs. 450 is expected to be uncollectible.
124(a)	The fair value of the acquired identifiable intangible assets of Rs. 3,300 is provisional pending receipt of the final valuations for those assets.
120(j) 124(c) ASLB	A contingent liability of Rs. 1,000 has been recognised for expected warranty claims on products sold by TE during the last three years. We expect that the majority of this expenditure will be

19.97, 98	incurred in 20X3 and that all will be incurred by the end of 20X4. The potential undiscounted amount of all future payments that AE could be required to make under the warranty arrangements is estimated to be between Rs. 500 and Rs. 1,500. As of 31 December 20X2, there has been no change since 30 June 20X2 in the amount recognised for the liability or any change in the range of outcomes or assumptions used to develop the estimates.
120(p)	The fair value of the non-controlling interest in TE, a listed entity, was measured using the closing market price of TE's ordinary shares on the acquisition date.
120(r)(i)	The revenue included in the consolidated statement of income and expenditure since 30 June 20X2 contributed by TE was Rs. 4,090. TE also contributed profit of Rs. 1,710 over the same period.
120(r)(ii)	Had TE been consolidated from 1 January 20X2 the consolidated statement of income and expenditure would have included revenue of Rs. 27,670 and profit of Rs. 12,870.

In considering the disclosures related to an acquisition, an entity may find it helpful to refer to the discussion of materiality in ASLB 1.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 40 and the corresponding International Public Sector Accounting Standard (IPSAS) 40, 'Public Sector Combination'.

Comparison with IPSAS 40, '*Public Sector Combination*'

1. Different terminologies have been used in the ASLB 40 as compared to corresponding IPSAS 40, e.g., terms 'entity', 'entity combination', 'statement of income and expenditure' and 'balance sheet' have been used in ASLB 40 in place of 'public sector', 'public sector combination', 'statement of financial performance' and 'statement of financial position', respectively.

2. Paragraph 2A pertaining to applicability of ASLBs has been inserted in ASLB 40 in line with other issued ASLBs.

3. The following paragraphs of IPSAS 40 have been deleted, however, the paragraphs numbers have been retained in ASLB 40 in order to maintain consistency with the corresponding IPSAS 40:

   (i) The following concepts of IPSAS 40 have not been retained as it does not seem relevant in the context of Local Bodies in India:

      a) When an entity combination that is subject to approval by each party's citizens through referenda (paragraph 13(b) and AG36),

      b) Concept related to mutual entities (paragraph 5, AG95-97),

      c) Income Tax is not forgiven in India in case of entity combination & Local Bodies in India cannot be an income tax authority that forgives income tax in case of entity combination (paragraphs 33, 49, 78, 118, 124(f), AG58 and AG86-87),

d) Concept of share-based payment transactions as local bodies does not deal in employees stock ownership plans (ESOP) (paragraphs 84 and AG104-106),

e) Valuation methods of financial instruments (paragraphs 25, 70 & 117(b)), and

f) Disclosures in case of acquisition for goodwill that is expected to be deductible for tax purposes (paragraph 120(k)).

(ii) Paragraph 126 pertaining to effective date has been deleted as ASLB 40 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

(iii) Paragraphs 127-134 and AG114-115 of IPSAS 40 pertaining to transitional provisions have been deleted as a separate ASLB 33, '*First-time Adoption of ASLBs*' have been issued that contains all transitional provisions at one place.

(iv) Paragraph AG108 regarding drawing guidance relating to insurance contract, income taxes and share based payments standards from subsequent measurement and accounting portion in case of acquisition.

4. The following paragraphs of IPSAS 40 have been amended to make it more relevant in the context of Local Bodies in India:

(i) Appendix C of ASLB 35, '*Consolidated Financial Statements*' covers the concept of investment entity, accordingly, the reference of the same has been provided in paragraph 4.

(ii) ASLB 31, '*Intangible Assets*' does not contain the concept of indefinite useful life for intangible asset rather it provides that there is a rebuttable presumption that the life of an intangible asset will not exceed ten years. Apart from this, ASLBs on Impairment of Cash-Generating Assets and Non-Cash Generating Assets provide that the intangible assets are impaired whenever the indications of impairment are present except intangible assets that is not yet available for use that are impaired annually irrespective of indications of impairment in. Accordingly, the modifications done in paragraph 47 and 113.

(iii) The concept of Statement of changes in net assets/ equity has been deleted in line with other already issued ASLBs. Accordingly, modification made in paragraphs 50(d) & 54(g)(iii).

(iv) ASLB 40 requires only nature-wise classification of expenses for recognition of expenses in Statement of Income and Expenditure in line with ASLB 1, '*Presentation of Financial Statements*'. Accordingly, the modification made in paragraph 54(h)(i).

(v) Income Tax is not forgiven in India in case of entity combination & Local Bodies in India cannot be an income tax authority that forgives income tax in case of entity combination. Accordingly, the modifications done in paragraphs 34, 56(b), 79, 124(b), AG57 and AG85.

(vi) Deleted the concept of share-based payment transactions in paragraph 95.

(vii) Removed the reference of Recommended Practice Guideline (RPG) issued by IPSASB in paragraph AG4.

(viii) Reference of paragraphs 39D-39E of IPSAS 31 deleted from paragraph AG84 of ASLB 40 as corresponding paragraphs are not there in ASLB 31.

(ix) Paragraphs 117 and AG103(e)-(g) pertaining to meeting specified earning target and profit-sharing arrangements have been deleted as the main objective of Local Bodies is to provide services rather than earning profit.

5. Footnotes have been appended to paragraph 98 to define the terms 'financial instrument', 'financial assets' 'financial liability' and 'equity instruments' for more clarity (paragraph 98)

6. ASLB 40 makes a reference to the Guidance on '*Financial Instruments*', 'income taxes' and 'insurance contracts' on which ASLBs/Guidance is yet to be formulated/issued. The clarification on

obtaining guidance in regard to those ASLBs has been incorporated in ASLB 40 such as in paragraph 25, 33& 71(b).

7. Some examples of IPSAS 40 have been deleted or modified in light of Indian conditions, and some examples have been included in ASLB 40. (paragraphs 25, 67, 70, 95, AG24, AG35, AG37, AG74 and AG76)

8. Flow charts inserted in implementation guidance briefing the accounting for amalgamation and acquisition.

9. Consequential changes resulting from the above departures have been made in ASLB 40.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 40 and the existing Accounting Standard (AS) 14, 'Accounting for Amalgamations'.

Comparison with Existing AS 14, *'Accounting for Amalgamations'*

1. ASLB 40 uses different terminologies, in certain instances, from existing AS 14. For example, ASLB 40 uses the terms "entity" and "statement of income and expenditure" whereas existing AS 14 uses the terms "enterprise" and "statement of profit and loss", respectively.

2. ASLB 40 defines an entity combination which has a wider scope whereas existing AS 14 deals with amalgamation and mergers.

3. Under existing AS 14, the acquired assets and liabilities are recognised at their existing carrying amounts or at fair values under the purchase method. ASLB 40 requires the acquired identifiable assets liabilities and non-controlling interest to be recognised at fair value under acquisition method. (Paragraph 12 of AS 14 and paragraphs 72-73 of ASLB 40)

4. ASLB 40 requires that for each entity combination, the acquirer should measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. On the other hand, existing AS 14 read together with AS 21 states that the minority interest is the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and it is shown separately from liabilities and shareholders' equity. (Paragraph 13(e) of AS 21 and paragraph 73 of IPSAS 40)

5. Under ASLB 40, the goodwill is not amortised but tested for impairment on annual basis in accordance with ASLB 26, '*Impairment of Cash-Generating Assets*'. However, existing AS 14 requires that the goodwill arising on amalgamation in the nature of purchase is amortised over a period not exceeding five years.

6. ASLB 40 deals with reverse acquisitions whereas existing AS 14 does not deal with the same.
7. ASLB 40 deals with the contingent consideration in case of entity combination whereas existing AS 14 does not provide specific guidance on this aspect.
8. ASLB 40 contains additional guidance on Local Body specific transactions.

Notes

Notes