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Enclosed are my comments re ED3 "Business Combinations".

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Dov Kahana

Comments re

Ed3 Business Combinations

Question 9 — "Excess Over Cost"

I have read carefully the learned reasonings in BC 109-BC 120. It follows that mainly because it is not feasible to attribute the excess to identifiable components, the Board breached an elementary basic principle that income is earned only when realized through the business cycle of a purchase and a sale (except for items that under accounting principles are measured at fair value). Income cannot be realized by a purchase alone (or by a sale alone e.g. a future sale). None of the three components causing the excess (BC Ill and 56) justify therefore the realization, of immediate income.

Between the two possibilities of 1) apportioning the excess to Income in future periods, either by attributing the excess to specific items, or by some other treatment 2) recognizing .the excess as immediate Income in my opinion, the lesser "evil" is the first possibility. I suggest therefore, that the excess should be accounted for as a negative asset and apportioned to income in the future on the basis of the weighted average of the life of non financial assets acquired (including net tax assets). If this is not feasible the excess should be amortized to income over an arbitrary period set by the Board (say five or ten years).

As to convergence with the FASB, they might also be convinced to change their position

Common Control

The definition in para. 9 relates to control "by the same party or parties" thus when several individuals own each separately a fraction of the voting shares in entity A and together they own the majority of the voting shares in that entity A and these same individuals mutatis mutandis own the majority of the voting shares of entity B then entities A and B in my opinion are under common control even if there is no contractual arrangement between these individuals. I suggest therefore that any reference to contractual arrangements should be deleted in para. 10. I would also note that neither did I find in the Basis for conclusions any explanation why a contractual relationship between such individuals (or any entities) should be required.

Business Combination Achieved in Stages

Under Para. 58, the difference between the values at the various exchange dates and the value at acquisition date is to be as accounted for as a revaluation surplus even if the entity did not elect the alternative accounting treatment is IAS 16.

The board should clarify what is the accounting treatment of this surplus. Should it be recycled to income upon realization or may be directly to retained earnings as in para. 39 of IAS 39, or not. In my opinion the revaluation surplus should be recycled to income upon realization or gradually upon partial realizations through depreciation or otherwise.