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STAFF PAPER

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Project	Business Combinations under Common Control
Paper topic	Predecessor approach—carrying amounts

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Purpose of this paper

1. At the September 2019 meeting, the International Accounting Standards Board (Board) tentatively decided that a current value approach based on the acquisition method set out in IFRS 3 *Business Combinations* should be applied to transactions that affect non-controlling shareholders of the receiving entity—subject to an exception and an exemption[1]—and a predecessor approach should be applied to all other transactions within the scope of the project, notably the transactions between wholly owned entities.

2. This paper discusses how a predecessor approach should be applied, specifically whether a receiving entity should recognise and measure assets and liabilities transferred in a business combination under common control:

    (a) at the carrying amounts included in the financial statements of the transferred entity; or

    (b) at the carrying amounts included in the consolidated financial statements of the transferred entity's controlling party.

[1] A current value approach would applied to transactions that affect non-controlling shareholders unless equity instruments of the receiving entity are not traded in a public market and (1) all non-controlling shareholders are the receiving entity's related parties (the exception) or (2) the receiving entity chooses to apply a predecessor approach and all its non-controlling shareholders have been informed about the receiving entity applying that approach and not objected (the exemption).

Structure of this paper

3. This paper is structured as follows:
   (a) staff recommendation (paragraph 5)
   (b) overview of findings in the staff's research and outreach (paragraphs 6–21);
   (c) alternative approaches to predecessor carrying amounts (paragraphs 22–36); and
   (d) staff's analysis and recommendation (paragraphs 37–45).
4. Appendix A provides an illustrative numerical example of how alternative approaches to predecessor carrying amounts information would apply.

Staff recommendation

5. The staff recommend that the forthcoming discussion paper on Business Combinations under Common Control (discussion paper)[2] sets out the preliminary view that, applying a predecessor approach, a receiving entity should recognise and measure assets and liabilities transferred in a business combination under common control at the carrying amounts included in the financial statements of the transferred entity.

Overview of findings in the staff's research and outreach

National requirements and guidance on a predecessor approach

6. In developing recommendations on how a predecessor approach should be applied, the staff reviewed requirements and guidance on business combinations under common control and group restructurings in other GAAPs, including guidance for public sector combinations.[3]

[2] At a future meeting, the staff will ask the Board to confirm what the next due process document on the project should be.

[3] A predecessor approach is sometimes referred to in other GAAPs as 'merger accounting'.

7. The staff's review indicated that requirements on which predecessor carrying amounts should be used vary across GAAPs. Some GAAPs require the use of the predecessor carrying amounts included in the financial statements of a transferred entity's parent. For example, this is required in US GAAP by ASC 805-50-30-5 *Transfer Date Measurement*:

> 'When accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interests shall initially measure the recognized assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. If the carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entities under common control, for example, because pushdown accounting[4] had not been applied, then the financial statements of the receiving entity shall reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control.'

8. Similar requirements are also included in:

   (a) paragraph 9 of Accounting Guideline 5 *Merger Accounting for Common Control Combinations* (AG 5) issued by Hong Kong Institute of Certified Public Accountants, that describes predecessor carrying amounts as 'existing book values' from the controlling party's perspective. AG5 further requires that 'if consolidated financial statements were not previously prepared by the controlling party, the carrying amounts are included as if such consolidated financial statements had been prepared'.

   (b) paragraph 17 of the Accounting Standard for Mergers and Acquisitions of Korean GAAP, that requires that mergers between a parent and a subsidiary or among subsidiaries use the book value from consolidated financial statements.

[4] Pushdown accounting is permitted in US GAAP. When an entity obtains control of a business a new basis of accounting is established in the financial statements of the acquirer. In some cases, the acquiree continues to prepare separate financial statements after the acquisition. The use of the acquirer's basis of accounting (ie the carrying amounts of assets and liabilities of the acquiree included in the consolidated financial statements of the acquirer) in preparing the separate financial statements of the acquiree is defined as 'pushdown accounting'.

(c) Accounting Standards for Business Enterprises 20 *Business Combinations*, that requires an entity to measure the acquired assets and liabilities at their carrying amounts in the consolidated financial statements of the parent.

9. The common rationale for those requirements is viewing the transactions from the perspective of the controlling party because the transaction does not change the controlling party's control over the underlying net assets. Under this view, determining predecessor carrying amounts from the perspective of the controlling party reflects the continuation of its interest in and control over the underlying net assets.

10. Other GAAPs require the use of the carrying amounts in the financial statements of the transferred entity adjusted to achieve uniformity of accounting policies and to eliminate the effects of intercompany transactions. For example, paragraph 29 of Section 19 *Business Combinations and Goodwill* of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* requires that applying the merger accounting method the carrying values of the assets and liabilities of the parties to the combination are not adjusted to fair value, although appropriate adjustments shall be made to achieve uniformity of accounting policies in the combining entities.

11. Similar requirements are also included in Section 3840 *Related Party Transactions* of the Accounting Standards for Private Enterprises developed by the Canadian Accounting Standards Board, in the Standard of Generally Recognised Accounting Practice 107 issued by the Accounting Standards Board (South Africa) and in IPSAS 40 *Public Sector Combinations* issued by the International Public Sector Accounting Standards Board.

12. Those GAAPs view the transaction from the perspective of the combining entities, rather than from the perspective of the controlling party. Paragraph AG53 in the application guidance of IPSAS 40 acknowledges that the 'where a combining operation has previously been acquired in an acquisition, 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'. However, 'the fair value measurements in the financial statements of the controlling entity are not pushed down to the combining operation'.

Guidance on a predecessor approach published by accounting firms

13. The guidance published by accounting firms suggests that an entity has an accounting policy choice and can elect to use either the carrying amounts included in the financial statements of the transferred entity or carrying amounts included in the consolidated financial statements of the controlling party.

14. Two accounting firms express a preference for using the carrying amounts (of assets and liabilities of the transferred entity or business) included in the consolidated financial statements of the highest entity that has common control and produces consolidated financial statements. They set out the following reasons for recommending that approach:

    (a) those carrying amounts reflect the perspective of the party that effectively directs the transaction;

    (b) in substance, the transferred entities or businesses are a portion of the controlling party that is being moved around within the group; and

    (c) those carrying amounts are more relevant than the carrying amounts included in the financial statements of the transferred entity because they may better reflect the current value of assets and liabilities of the transferred entity.

15. However, those accounting firms state that the use of the carrying amounts included in the financial statements of the transferred entity is not prohibited. They list factors that in their view an entity might consider in selecting its accounting policy:

    (a) potential capital market transaction—they argue that if a combination under common control is undertaken in preparation for a potential capital market transactions, the carrying amounts at the highest level of consolidation would generally be more relevant because those carrying amounts may better reflect the current value of the assets and liabilities of the transferred entity if it was previously acquired in a third party combination.

    (b) timing of the combination—the carrying amounts recognised by the controlling party are usually more relevant if the transferred entity or business has been recently acquired from a third party. The longer ago that acquisition was, the less relevant this factor is.

(c) identity of the users—if a significant portion of the users of the consolidated financial statements of the receiving entity—that include the transferred entity—previously relied, in making their decisions, on the carrying amounts included in the financial statements of the transferred entity, those carrying amounts may be more relevant to those users.

Research into current reporting practice

16. As discussed in September 2019 Agenda Paper 23A, the staff performed a desktop review of business combinations under common control reported applying IFRS Standards in annual reports filed between 1 January 2018–31 March 2019[5].

17. The desktop review indicated that there is diversity in practice in reporting carrying amounts applying a predecessor approach. Of 251 to which a form of predecessor approach was applied, in approximately half of the cases the entities stated that they recognised assets and liabilities of the transferred entities or businesses at the carrying amounts included in the financial statements of a controlling party. In about 10% of those transactions, entities stated that they used carrying amounts reported by the transferred entities. In the remaining cases, the entities did not specify which predecessor carrying amounts were used.

18. The staff's review also indicated that in most cases when national requirements or guidance exist, accounting policy choices made by entities on predecessor carrying amounts were consistent with those requirements and guidance in the entities' jurisdictions (for example, of 113 transactions reported applying a predecessor approach in Hong Kong, predecessor carrying amounts included in the financial statements of the controlling party were used in 74 cases, consistent with the provisions of AG5).

[5] In performing the desktop review, the staff used the financial search engine, AlphaSense. The search was limited to annual reports written in English and would identify the existence of business combinations under common control only if those transactions were disclosed in annual reports.

Input received in the outreach activities

19. In the initial stages of the project, the staff discussed how a predecessor approach is applied in practice and how it should be applied—including which predecessor carrying amounts should be used—with stakeholders from various jurisdictions, including:

    (a) regulators at the December 2015 European Enforces Coordination Sessions (EECS); and

    (b) standard-setters at the December 2015 meeting of the Accounting Standards Advisory Forum (ASAF), December 2015 meeting of the Emerging Economies Group (EEG) and June 2015 Asia-Oceania IFRS workshop for standard-setters.

20. Standard-setters expressed mixed views on the topic:

    (a) some members expressed the view that the predecessor carrying amounts in the consolidated financial statements of the controlling party should be used. They noted that this is what they tend to see in practice. Some argued that using those amounts is appropriate because business combinations under common control are directed by the controlling party and accounting should reflect that party's perspective. Some noted that the transferred entity, or business, may not have prepared financial statements in accordance with the IFRS Standards, or may not have prepared any financial statements at all.

    (b) other members expressed the view that the carrying amounts recognised by the transferred entity or business should be used. They noted that this is what they tend to see in practice. Some argued that amounts recognised by the controlling party are irrelevant from the point of view of the combining entities. Some noted that the controlling party may not have prepared financial statements previously.

21. Regulators expressed a more consistent view:

    (a) most regulators expressed the view that carrying amounts of the transferred entity should be used. One regulator stated that using carrying amounts recognised by the controlling party would be a form of so-called pushdown accounting and that this is not permitted by IFRS Standards.

(b) one regulator argued that carrying amounts recognised by the controlling party would be more relevant for users of the financial statements, because those amounts could be more up to date than the carrying amounts recognised by the transferred entities or businesses. However, he advocated the use of the carrying amounts recognised by the controlling party for all combining entities, ie a form of pushdown accounting[6].

(c) some regulators stated that they did not have a preferred approach. They stated that it is difficult for them to assess which carrying amounts would provide the most useful information to users of financial statements.

(d) one regulator suggested that if it is debatable which approach would provide the most useful information to users of financial statements, the Board should consider which approach is easier to apply from the preparers' perspective.

Alternative approaches to predecessor carrying amounts

22. Based on the research and outreach discussed in paragraphs 6–21, the staff have identified two alternatives for the carrying amounts that could be used by a receiving entity in a business combination under common control applying a predecessor approach:

(a) Alternative A—recognise assets and liabilities of the transferred entity at the carrying amounts included in the financial statements of the transferred entity (paragraphs 28–32); or

(b) Alternative B— recognise assets and liabilities of the transferred entity at the carrying amounts included in the consolidated financial statements of the transferred entity's controlling party. Depending on the circumstances, that could be the immediate parent of the transferred entity (ie the

[6] The staff are not aware of any basis for applying pushdown accounting under existing IFRS Standards and the staff's outreach indicated little support for that approach. Accordingly, the staff have not considered that approach further.

transferor), an intermediate parent, or the ultimate parent of the transferred entity (paragraphs 33–36).[7]

23. Both alternatives are illustrated in Figure 1 and an illustrative numerical example is included in Appendix A.

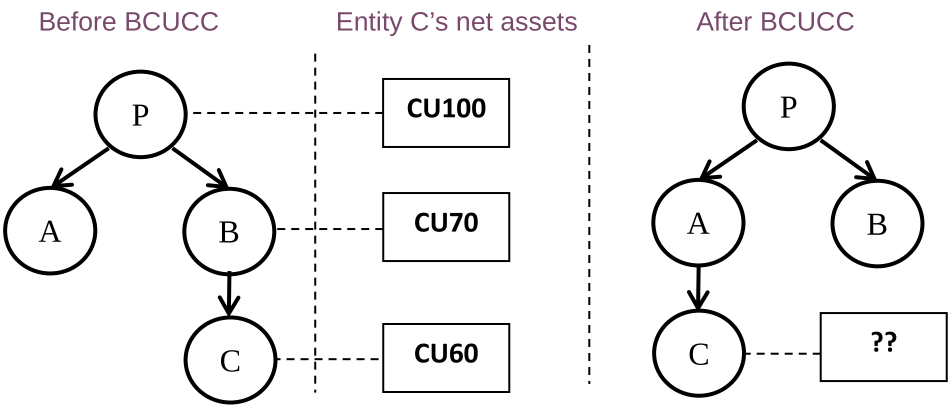
Figure 1

All the entities included in this example apply IFRS Standards.

Entity P wholly owns Entities A, B and C. The carrying amount of Entity C's net assets is CU60 in its individual financial statements (FS), CU70 in Entity's B consolidated FS and CU100 in Entity's P consolidated FS. Entity A acquires Entity C. Applying a predecessor approach, Entity A would recognise and measure assets and liabilities of Entity C:

(a) applying Alternative A, at the carrying amounts included in the FS of the transferred entity (CU60); or

(b) applying Alternative B, at the carrying amounts included in the consolidated FS of the transferred entity's controlling party. If the Board decided to pursue this alternative, the Board would need to specify whether the receiving entity should use the carrying amounts included in the financial statements of the immediate parent (CU 70) or of the ultimate parent (CU100) of the transferred entity. This is discussed in paragraphs 33–36.



[7] This paper discusses which predecessor carrying amounts should be used by the receiving entity. It does not address from what date the transferred entities or businesses should be included in the receiving entity's financial statements. That topic is addressed in Agenda Paper 23B *Predecessor approach—pre-combination information* for this month's meeting. Specifically, it discusses whether the combining entities or businesses should be presented as if they had always been combined, ie from the beginning of the earliest period presented (or the date of the inception of common control, if later), or whether they should be combined prospectively from the date of the transaction.

24. The staff note that if the transferred entity or business has been always part of the same group, the carrying amounts of the assets and liabilities of that entity or business included in the consolidated financial statements of its controlling party (including the immediate parent, an intermediate parent and the ultimate parent) will generally be equal—subject to intercompany adjustments—to the carrying amounts recognised by the transferred entity or business itself. However, if the transferred entity or business was previously acquired from a third party, the carrying amounts in the consolidated financial statements of by the controlling party[8] can differ significantly from the carrying amounts recognised by the transferred entity or business. Likewise, in the latter case, the carrying amounts of the assets and liabilities of the transferred entity or business included in the consolidated financial statements can be different at different levels within the group (ie in the consolidated financial statements of the immediate parent, an intermediate parent or the ultimate parent) depending on the history of the group.

25. The staff further note that under both alternatives, assets transferred in a business combination under common control can include goodwill. However, the nature and the origin of any such goodwill under each alternative would be different:

    (a) applying Alternative A, any transferred goodwill would be goodwill recognised by the transferred entity as a result of the past acquisitions of the transferred entity's subsidiaries; and

    (b) applying Alternative B, any transferred goodwill would be goodwill recognised by the transferred entity's parent as a result of the past acquisition of the transferred entity.

26. Applying either alternative, a question may arise whether the receiving entity should:

    (a) only recognise identifiable assets of the transferred entity (ie excluding any goodwill recognised by the transferred entity itself if Alternative A is applied or goodwill recognised by transferred entity's parent if Alternative B is applied); or

[8] If the controlling party acquired the transferred entity or business from a third party in a business combination, it would have applied the acquisition method as set out in IFRS 3, recognising the assets acquired and liabilities assumed at their fair value at the acquisition date, and recognising goodwill arising on the acquistion.

(b) not only recognise identifiable assets of the transferred entity but also recognise goodwill.

27. The staff think that the underlying logic for using 'predecessor carrying amounts' suggests that all recognised assets of the transferred entity, including any goodwill that was previously recognised applying IFRS Standards, would be carried over to the receiving entity's financial statements. However, the staff would deal with this potential question in more detail, if needed, at a later stage of the project.

How Alternative A would apply

28. Applying this alternative, the receiving entity measures the assets acquired and the liabilities assumed in a business combination under common control at their carrying amounts in the financial statements of the transferred entity. The staff note that the transferred entity can be itself a parent that prepares consolidated financial statements: in those cases, the receiving entity will use the carrying amounts included in the consolidated financial statements of the transferred entity.

If IFRS Standards are applied by the transferred entity

29. A receiving entity will use the carrying amounts in the financial statements of the transferred entity prepared in accordance with IFRS Standards, if such financial statements are available. Those carrying amounts should be adjusted:

(a) to ensure the uniformity of accounting policies and accounting period with those of the receiving entity; and

(b) to eliminate intragroup assets, liabilities, equity, income, expenses, cash flows and unrealised gains or losses resulting from intragroup transactions applying paragraph B86(c) of IFRS 10 *Consolidated Financial Statements*.

If IFRS Standards are <u>not</u> applied by the transferred entity

30. In the transferred entity does not apply IFRS Standards, that entity should adjust its basis of accounting to align it with IFRS Standards. A transferred entity that prepares a reporting package in accordance with IFRS Standards for consolidation purposes for the first time would be not considered a first-time adopter in accordance with IFRS 1

First-time Adoption of International Financial Reporting Standards[9] and therefore would not be eligible for exceptions and exemptions set out in IFRS 1.[10] The staff further note that the receiving entity itself would not a first-time adopter if it already applies IFRS Standards in preparing its financial statements. In such cases, a question arises how to determine carrying amounts of assets and liabilities of the transferred entity applying IFRS Standards for inclusion in the receiving entity's financial statements.

31. Paragraph D16[11] of IFRS 1 deals with cases when a subsidiary becomes a first-time adopter later than its parent. Paragraph D16 deals with the subsidiary's own financial statements. Thus, it is not directly applicable to the financial statements of the receiving entity.

32. The staff will analyse in a future meeting whether the approach in paragraph D16 would also be appropriate when the carrying amounts of a transferred entity or business are first incorporated in the financial statements of the receiving entity.

How Alternative B would apply

33. Applying Alternative B, the receiving entity will use the carrying amounts of the assets and liabilities of the transferred entity or business included in the consolidated financial statements of its controlling party.

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[9] Paragraph 3(c) of IFRS 1 states that a reporting entity that prepares a reporting package for the first time in accordance with IFRS Standards but at the same time does not prepare a full set of financial statements in compliance with IAS 1 *Presentation of Financial Statements* is not a first time adopter

[10] If the transferred entity decides to start preparing financial statements applying IFRS Standards, it would be eligible to apply IFRS 1 *First-time Adoption of International Financial Reporting Standards.*

[11] 'If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in IFRS 10, that is required to be measured at fair value through profit and loss); or

(b) the carrying amounts required by the rest of this IFRS, based on the subsidiary's date of transition to IFRSs. These carrying amounts could differ from those described in (a):

  (i) when the exemptions in this IFRS result in measurement that depend on the date of transition to IFRSs.

  (ii) When the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in IAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.' [IFRS 1.D16]

34. In principle, applying the logic of this alternative—ie viewing the transaction from the perspective of the controlling party—carrying amounts at the highest level of common control should be used. Those carrying amounts would need to be adjusted for the effects of any intra-group transactions as required by paragraph B86C of IFRS 10. As a starting point, the receiving entity should use the IFRS carrying amounts of assets and liabilities of the transferred entity included in the consolidated financial statement of the combining entities' ultimate parent. If those carrying amounts are not available because IFRS consolidated financial statements are not prepared at that level or because the ultimate controlling party is not a reporting entity, the receiving entity will go down in the group structure and consider whether IFRS carrying amounts are available at the level of an intermediate parent of the transferred entity or business, or further down at the level of its immediate parent.

35. To illustrate the mechanics described about, consider the scenario presented in Figure 1 but suppose that the ultimate parent, Entity P, does not prepare consolidated financial statements in accordance with IFRS Standards. In that case, the receiving entity, Entity A, will use the carrying amounts of assets and liabilities of the transferred entity, Entity C included in the consolidated financial statements prepared in accordance with IFRS of the transferred entity's next intermediate parent (and in this case, also the immediate parent), Entity B.

36. If IFRS carrying amounts of the assets and liabilities of the transferred entity or business are not available at any of the parent entities, the receiving entity would need to adjust the basis of accounting used by the transferee to align it with IFRS Standards. However, the staff think that a receiving entity should not be required, in the cases where the transferred entity or business was acquired in the past from a third party but IFRS consolidated financial statements have never been prepared at any level within the Group, to determine the IFRS carrying amounts that would have been determined if such consolidated financial statements had been prepared. Such an approach would be costly and possibly impracticable if the acquisition occurred many years ago. Instead, the staff think that in such cases, the receiving entity should use the carrying amounts included in the transferred entity's financial statements as discussed in paragraphs 33–35.

Staff's analysis

37. As stated in paragraph 1, at the September 2019 meeting the Board tentatively decided that a current value approach based should be applied to transactions that affect non-controlling shareholders of the receiving entity—subject to the exception and the exemption—and a predecessor approach should be applied to all other transactions within the scope of the project.

38. The use of the carrying amounts of assets and liabilities included in the financial statements of the transferred business applying Alternative A would:

    (a) ensure comparability with the historical financial information of that entity or business. This would help both lenders and other creditors and potential equity investors in performing trend analysis comparing the performance of the transferred business post combination with its pre-combination performance.

    (b) result in consolidated or combined financial statements of the combined entities or businesses that reflect the perspective of those entities rather than its controlling party and reflect continuation of those entities or businesses in a new legal form.

39. From a practical point of view, if the transferred entity or business has been applying IFRS Standards, its carrying amounts will always be available and ready to use; however, complications and additional costs could arise if the transferred entity or business was not already using IFRS Standards in its financial statements as discussed in paragraphs 30–32.

40. Alternative B would result in information based on more recent values than Alternative A because it would be based on fair values of assets and liabilities of the transferred entity at the time it was acquired into the Group from a third party. Thus, in some cases, the information provided by Alternative B might be more relevant for some users of receiving entity's financial statements than the information provided by Alternative A, especially if the external acquisition was recent.

41. However, the staff think that Alternative B lacks conceptual rational because:

(a) it reflects the perspective of the controlling party and not the perspective of the receiving entity which is inconsistent with paragraph 3.8 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. Furthermore, the staff think that from the perspective of the users of the receiving entity's financial statements that are not users of the controlling party's financial statements, the carrying amounts recognised by the controlling party are irrelevant.

(b) it would be similar to the concept of 'push-down accounting' that is currently not included in *IFRS Standards.* The staff think that the application of push-down accounting could result in the recognition and measurement of acquired assets and assumed liabilities at amounts that would conflict with the requirements of IFRS Standards.

42. From a practical point of view, Alternative B would result in the use of a single set of accounting records for the same entity or business within the Group for the purposes of preparing consolidated financial statement. However, in some cases, carrying amounts of assets and liabilities of the transferred entity prepared applying IFRS Standards may not available at a controlling party level, as discussed in paragraphs 33–36.

Staff's recommendation

43. On balance, on the basis of the analysis in paragraphs 37–42, the staff recommend Alternative A, specifically the receiving should recognise and measure assets and liabilities transferred in a business combination under common control at the carrying amounts included in the financial statements of the transferred entity. This approach is consistent with the reporting entity perspective in the *Conceptual Framework* and would ensure a consistent measurement basis for the assets and liabilities of the transferred entity making it easier for users to perform trend analysis.

44. The staff recommendation is also generally supported by some, but not all, the findings of the staff's research and outreach:

(a) As explained in paragraphs 6–12 some national GAAPs use the carrying amounts of the transferred business, whereas others use the carrying amounts of a controlling party. However, the rational of those GAAP requiring the carrying amounts of a controlling party is mainly based on the assumption that the controlling party interest is predominant in the transactions. The staff therefore think this assumption is inconsistent with the perspective of the reporting entity set out in by paragraph 3.8 of *Conceptual Framework.* Indeed, other GAAPs that adopt a perspective more consistent with the *Conceptual Framework* require the use of the carrying amounts of the transferred entity or business.

(b) As highlighted in paragraphs 13–15, two accounting firms express a general preference for using the carrying amount of a controlling party; however, their guidance suggests that an entity has an accounting policy choice permitting either that approach or the use of carrying amounts included in the financial statements of the transferred entities or business.

(c) In various outreach events, as discussed in paragraphs 19–21, standard-setters expressed mixed views on which carrying amounts should be used, whereas regulators expressed a preference for the use of the carrying amounts of the transferred entity or business.

45. In conclusion, on balance and after considering all the feedback received, the staff think the carrying amounts of the transferred business should be used when applying a predecessor approach.

Question for the Board

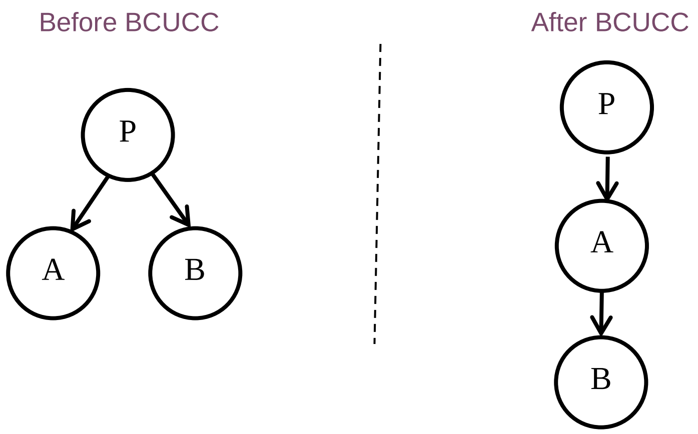
Question for the Board
Does the Board agree with the staff recommendation in paragraph 43 that applying a predecessor approach the receiving entity should recognise and measure assets and liabilities transferred in a business combination under common control at the carrying amounts included in the financial statements of the transferred entity ?

Appendix A––Illustrative examples

Fact Pattern

Parent P controls and wholly owns both Entities A and B. All entities prepare financial statements in accordance with IFRS Standards. Accounting policies and accounting periods of all entities are aligned. On 30 June 201X Entity A acquires 100% of Entity B by issuing shares to Entity P. Shares are issued at a value of CU200.

The transaction may be portrayed is as follows:



Entity P acquired Entity B from a third party a few years ago. At the date of acquisition, Entity P measured the acquired identifiable net assets of Entity B at their fair value in accordance with the acquisition method in IFRS 3 resulting in a fair value 'step up' of CU10. Entity P also recognised goodwill in the amount of CU10. At the date of acquisition of Entity B by Entity A under common control, CU5 of the fair value 'step up' of identifiable net assets of Entity B was still recognised in the consolidated financial statements of Entity P because those net assets had not been consumed or sold.

The financial statements of all entities, including consolidated financial statements of Entity P, at 30 June 201X are available as follows:

	Entity P	Entity A	Entity B	CONS A	CONS B	P GROUP
Sub A	400	-	-	(400)	-	-
Sub B	120	-	-	-	(120)	-
Goodwill	-	-	-	-	10	10
Other net assets	100	470	115	-	5	690
Total Net Assets	**620**	**470**	**115**	**(400)**	**(105)**	**700**
Share capital	200	100	20	(100)	(20)	200
Retained earnings	440	300	80	(300)	(85)	435
Profit (loss) of the period	(20)	70	15	-	-	65
Total Equity	**620**	**470**	**115**	**(400)**	**(105)**	**700**

Alternative A—carrying amounts recognised by the transferred entity or business

	Entity A	Entity B	CONS B	A CONS
Sub B	200	-	(200)	-
Goodwill	-	-	-	-
Other net assets	470	115	-	585
Total Net Assets	**670**	**115**	**(200)**	**585**
Share capital	300	20	(20)	300
Retained earnings	300	80	(180)	200
Profit (loss) of the period	70	15	-	85
Total Equity	**670**	**115**	**(200)**	**585**

Entity A measures the net assets of Entity B at their carrying amounts (CU115) in the financial statements of Entity B.

Alternative B—carrying amounts recognised by the controlling party

	Entity A	Entity B	CONS B	A CONS
Sub B	200	-	(200)	-
Goodwill	-	-	10	10
Other net assets	470	115	5	590
Total Net Assets	**670**	**115**	**(185)**	**600**
Share capital	300	20	(20)	300
Retained earnings	300	80	(165)	215
Profit (loss) of the period	70	15		85
Total Equity	**670**	**115**	**(185)**	**600**

Entity A measures the net assets of Entity B at their carrying amounts in the consolidated financial statements of Entity P (CU130). This carrying amount comprises the carrying amounts included in Entity B's financial statements (CU115) plus the 'push-down' amounts of the remaining fair value 'step up' (CU5) and of goodwill (CU10) included in the consolidated financial statements of Entity P. As discussed in paragraph 30–32, the staff will perform further analysis, if needed, of whether any pre-existing goodwill should be recognised by the receiving entity in a business combinations under common control at a later stage of the project.