

STAFF PAPER

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IASB® meeting

Project	Business Combinations under Common Control		
Paper topic	Predecessor approach—pre-combination information		
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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 exemption¹—and a predecessor approach should be applied to all other transactions within the scope of the project, notably transactions between wholly owned entities.
2. This paper discusses how a predecessor approach should be applied, specifically whether combining entities or businesses should be combined:
 - (a) retrospectively from the beginning of the earliest period presented—under this alternative, pre-combination information in the primary financial statements is provided for all combining entities or businesses; or
 - (b) prospectively from the date of the transaction—under this alternative, pre-combination information in the primary financial statements is provided only for the receiving entity.

¹ A current value approach would be 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 6–19);
 - (c) alternative approaches for presenting pre-combination information (paragraphs 20–31); and
 - (d) staff’s analysis and recommendation (paragraphs 32–40).
4. Appendix A provides an illustrative numerical example of how alternative approaches for presenting pre-combination 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 a preliminary view that applying a predecessor approach, pre-combination information in the primary financial statements is provided only for the receiving entity.

Overview of findings in the staff’s research and outreach

National requirements and guidance on a predecessor approach

6. As discussed in September 2019 Agenda Paper 23A *Predecessor approach—carrying amounts*, in developing recommendations on how a predecessor approach should be applied, the staff reviewed national requirements and guidance on applying a form of predecessor approach³ to business combinations under common control and group restructurings, including guidance for public sector combinations. The staff’s review indicated that restatement of pre-combination information as if the combination occurred at the beginning of the earliest period presented (or from the date when the

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 ‘pooling of interests method’ or ‘merger accounting’.

combining entities or businesses first came under common control) is required or permitted by many of those GAAPs, including:

- (a) FASB Accounting Standards Codification (ASC) 805-50-45-5 *Comparative Financial Statement Presentation or Prior Years*;
- (b) Section 3840 *Related Party Transactions* of the Accounting Standards for Private Enterprises issued by the Canadian Accounting Standards Board;
- (c) Accounting Standards for Business Enterprises 20 *Business Combinations*;
- (d) Accounting Guideline 5 *Merger Accounting for Common Control Combinations* (AG5) issued by Honk Kong Institute of Certified Public Accountants; and
- (e) Section 19 *Business Combinations and Goodwill* of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* issued by the UK Financial Reporting Council.

7. The basis for these requirements and guidance is typically related to viewing the transaction from the perspective of the controlling party rather than from the perspective of the combining entities, or to usefulness of historical trend information for all combining entities or business. For example, AG5 explains that the use of merger accounting for business combinations under common control recognises ‘continuation of the risks and benefits to the controlling party (or parties) that existed prior to the combination’.
8. The staff’s review also identified instances when a form of predecessor approach is applied prospectively from the date of the transaction, for example:
 - (a) International Public Sector Accounting Standard 40 *Public Sector Combinations* requires application of the so called ‘modified pooling of interests method’. Applying that method, the combining entities are combined from the date of the transaction.
 - (b) Generally Recognised Accounting Practice 107 *Mergers* issued by the Accounting Standard Board (South Africa) requires that the combining public sector entities are combined from the merger date.

9. Bases for conclusions for both documents report concerns received from respondents in the public consultations about the practicability of restating pre-combination information.

Guidance on a predecessor approach published by accounting firms

10. The guidance on applying a predecessor approach published by accounting firms allows the following accounting policy choice:
- (a) present the combining entities or businesses as if they had always been combined, and provide pre-combination information on that basis; or
 - (b) combine the combining entities or businesses from the date of the transaction.
11. One of the accounting manuals explains that accounting policy choice relates to the different views on the scope of the requirement in IFRS 10 *Consolidated Financial Statements* to consolidate the acquired business from ‘the date the investor obtains control of the investee’ as follows:
- (a) the requirement does not apply to business combinations under common control because there is no change of control over the transferred business. The controlling party controls all the combining entities or businesses both before and after the transaction. Under this view, pre-combination information in the primary financial statements is provided for all combining entities or businesses.
 - (b) the requirement applies to all business combinations, including business combinations under common control. This is because the receiving entity did not control the transferred entities or businesses before the combination. In addition, although there is a scope exclusion for business combinations under common control in IFRS 3, there is no such scope exclusion in IFRS 10. Under this view, the combining entities or businesses will be combined from the date of combination and pre-combination information in the primary financial statements will be provided only for the receiving entity.

12. Another accounting manual explains that providing pre-combination information for all combining entities or businesses reflects the transaction from the perspective of the controlling party.

Research into current reporting practice

13. 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 2019⁴. Of 251 transactions to which a form of predecessor approach was applied:
- (a) pre-combination information for all combining entities or businesses in the primary financial statements was provided for 198 transactions; and
 - (b) prospective accounting was applied to 44 transactions⁵.
14. In terms of geographical distribution, the staff’s review indicated the following trends:
- (a) pre-combination information for all combining entities was provided for most transactions reported applying a predecessor approach in Asia (in 171 cases out of 181 transactions);
 - (b) the combining entities were combined prospectively from the date of the transaction in most transactions reported applying a predecessor approach in Europe (in 21 cases out of 34 transactions); and
 - (c) no prevailing practice was identified for transactions reported applying a predecessor approach in Americas, Africa, and Australia and Oceania (out of 36 transactions reviewed, prospective accounting was applied to 16 transactions, retrospective accounting was applied to 15 transactions, and not enough information was provided about the remaining 5 transactions).
15. The staff’s review also indicated that in most cases when national requirements or guidance exist, accounting policy choices made by entities on presentation of pre-

⁴ 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.

⁵ For nine transactions reviewed by the staff, information provided in the financial statements was not sufficient to determine whether the combining entities were combined from the date of the transaction or the beginning of the earliest period presented.

combination information were consistent with those requirements and guidance in the entities' jurisdictions (for example, of 113 transactions reported applying a predecessor approach in Hong Kong, pre-combination information for all combining entities was provided in 108 cases, consistent with the provisions of AG5 (see paragraph 6)).

Input received from the Board's consultative bodies

16. Presentation of pre-combination information applying a predecessor approach was discussed at the June 2019 joint Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meeting and July 2019 Accounting Standards Advisory Forum (ASAF) meeting:

- (a) CMAC and GPF members generally considered pre-combination information for all combining entities useful for users of the financial statements. However, the majority of CMAC and GPF members expressed their preference for prospective accounting in the receiving entity's primary financial statements and providing pre-combination information for all combining entities in the notes to financial statements. Those members argued that primary financial statements should not provide a picture of a group that did not exist before the combination.
- (b) GPF members generally considered it feasible to provide pre-combination information for all combining entities in the primary financial statements if they were separate legal entities (ie provide combined pre-combination information for those entities). However, they stated that providing pre-combination information would be more difficult and would involve more judgment if the transferred businesses were not reporting entities before the combination (eg in a carveout scenario when a NewCo issues shares to acquire a pre-existing business under common control). Some users expressed concerns about including 'made up' numbers on the face of the financial statements.
- (c) only a few ASAF members commented on the topic. Those members generally agreed that pre-combination information for all combining

entities is useful for users of financial statements in assessing trends. Most of those members suggested that such information should be provided in the notes rather than on the face of financial statements because:

- (i) preparing a complete set of pre-combination information for all combining entities could be challenging and involve uncertainties, in particular if the transferred businesses were not reporting entities before the combination; and
 - (ii) providing pre-combination information for the receiving entity only would better reflect the transaction that resulted in the new group being created.
- (d) a few other ASAF members supported providing pre-combination information for all combining entities on the face of the financial statements. They suggested that such presentation would result in information more useful for users than presentation in the notes.

Input received in the initial outreach activities on the project

17. As discussed in September 2019 Agenda Paper 23A, at the initial stages of the project the staff discussed both how a predecessor approach is applied in practice and how it should be applied—including how pre-combination information should be provided—with standard-setters and regulators from various jurisdictions.
18. Standard-setters who participated in those initial discussions expressed diverse views on the topic:
- (a) some standard-setters expressed the view that combining entities should be combined from the date on which the transaction takes place, and that pre-combination information in the primary financial statements should be that of the receiving entity only. They argued that presenting combining entities or businesses as if they had always been combined would result in pro-forma information. They also noted that there can be operational challenges and costs involved in preparing such pro-forma information.
 - (b) other standard-setters expressed the view that pre-combination information in primary financial statements should be provided for all combining

entities or businesses as if they had always been combined. Some argued that the resulting information would be most useful for users of financial statements. Others argued that such an approach would reflect the transaction from the perspective of the controlling party which in their view was an appropriate perspective in a business combination under common control.

- (c) some standard-setters stated that in their jurisdictions entities typically provide pre-combination information for all combining entities or businesses in the primary financial statements. Others stated that they see both approaches applied in practice.

19. Regulators who participated in those initial discussions expressed a view that combining entities or businesses should be combined from the date on which the transaction takes place and pre-combination information in the primary financial statements should be provided for the receiving entity only. They argued that presenting combining entities or businesses as if they had been combined would result in pro-forma information and noted that preparing such information could involve operational challenges. Some regulators suggested that selected information on a pro-forma basis could be required to be disclosed in the notes.

Alternative approaches for presenting pre-combination information

20. Based on the research and outreach discussed in paragraphs 6–15, the staff have identified two alternatives for the presentation of pre-combination information in the primary financial statements applying a predecessor approach:
 - (a) Alternative A—pre-combination information in the primary financial statements is provided for all combining entities or businesses as if they had always been combined (paragraphs 22–25); and
 - (b) Alternative B—pre-combination information in the primary financial statements is provided only for the receiving entity (paragraphs 26–31). Applying this alternative, particular pre-combination information for all combining entities or businesses can be provided in the notes.

21. Appendix A provides a numerical example of these alternatives.

How Alternative A would apply

22. Applying Alternative A, pre-combination information in the primary financial statements is provided for all combining entities from the beginning of the earliest period presented or the date when a combining entity first came under common control, if later. As a result, primary financial statements present combined (or, in some cases, carveout) information up to the date of the combination and consolidated information after the date of combination. In preparing such information, the receiving entity would be required to:

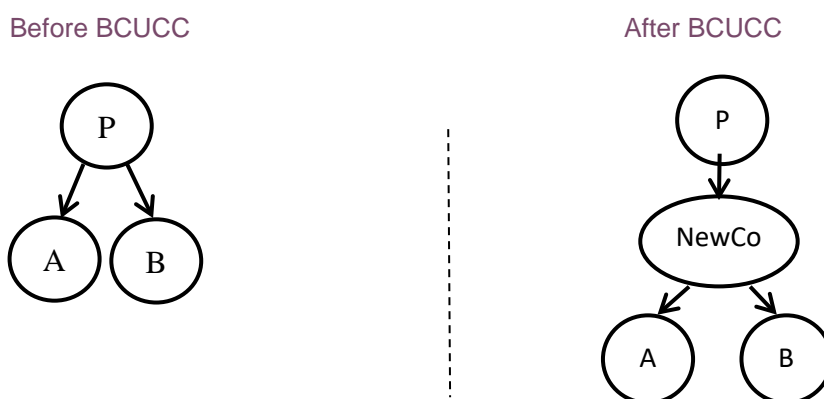
- (a) ensure the uniformity of accounting policies and accounting periods for all combining entities and businesses; and
- (b) eliminate intragroup assets, liabilities, equity, income, expenses, cash flows and any unrealised gains or losses resulting from intragroup transactions.

23. Figure 1 provides illustrations of the outcome of applying Alternative A in various scenarios.

Figure 1

Scenario 1a

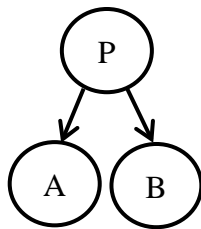
Parent P controls and wholly owns Entities A and B. NewCo is formed to issue shares to Parent P in exchange for all shares of Entities A and B. NewCo is a reporting entity.



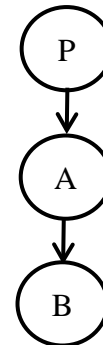
Scenario 1b

Parent P controls and wholly owns Entities A and B. Entity A issues shares to Parent P in exchange for all shares of Entity B. Entity A is a reporting entity.

Before BCUCC



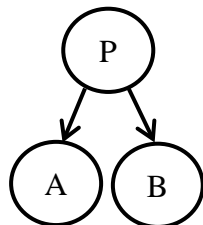
After BCUCC



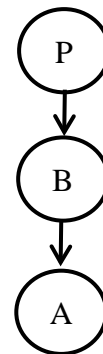
Scenario 1c

Parent P controls and wholly owns Entities A and B. Entity B issues shares to Parent P in exchange for all shares of Entity A. Entity B is a reporting entity.

Before BCUCC



After BCUCC



Analysis

Applying Alternative A, pre-combination information for both Entities A and B is provided in all scenarios regardless of the legal form of the transaction. That information is provided in financial statements of NewCo in Scenario 1a, of Entity A in Scenario 1b and of Entity B in Scenario 1c. Before the date of the transaction, those financial statements provide combined information for Entity A and Entity B. After transaction, those financial statements provide consolidated information for Entity A and Entity B.

- 24. In some cases, pre-combination information prepared applying IFRS Standards may not be available for some of the transferred entities or businesses. This may be the case when:
 - (a) a transferred entity did not prepare financial statements applying IFRS Standards. In those cases, pre-combination information of that entity would

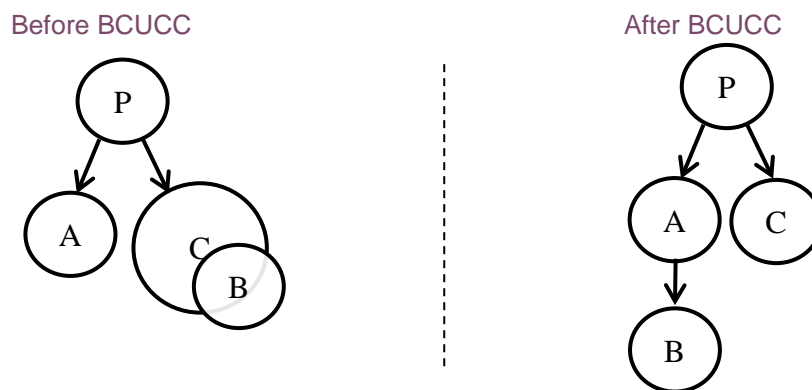
need to be adjusted to IFRS Standards and the receiving entity’s accounting policies. Paragraphs 30–32 of September 2019 Agenda Paper 23A discuss what to do in such cases.

- (b) a combining business was not a reporting entity (see Scenario 2 in Figure 2). In those cases, the reporting entity would be required to exercise judgement in determining whether it is practicable to prepare pre-combination information for that business and whether that information would possess qualitative characteristics of useful financial information as defined in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. If the entity determines that preparing such information is impracticable as defined in paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the staff think that the reporting entity should be required to combine that business prospectively from the date of combination.

Figure 2

Scenario 2

Parent P controls and wholly owns Entities A and C. Business B is one of the businesses that are part of Entity C. Entity A issues shares to Parent P in exchange for Business B. Entity A is a reporting entity.



Analysis

Applying Alternative A, the information provided in this scenario should be equivalent to information provided in Scenario 1b in Figure 1 where Entity A acquires Entity B under common control. However, in Scenario 2, Business B is not a separate entity. Accordingly, in Scenario 2 pre-combination information about Business B would be carveout information. Preparing carveout information could be

difficult in practice and could involve significant judgements in estimates. In some cases, preparing such information could be impracticable.

25. If the Board were to pursue Alternative A, the Board would need to address circumstances when one or more of the combining entities came under common control after the beginning of the first period presented. In principle, as stated in paragraph 22, the staff think that information about such entities should only be included in the combined financial statements since the date when those entities came under common control. However, a particular issue arises when it is the receiving entity that came under common control after the beginning of the earliest period presented. If the Board decided to pursue Alternative A, the staff would present their analysis and recommendation on this issue at a future meeting.

How Alternative B would apply

26. This is a simpler alternative that is also consistent with the mechanics of IFRS 3. Applying this alternative, the combining entities or businesses are included in the receiving entity’s financial statements from the date of combination. Pre-combination information in the primary financial statements is provided only for the receiving entity.
27. Applying Alternative B to illustrative scenarios in Figure 1 would result in the following outcomes:
- (a) pre-combination information would not be provided either for Entity A or for Entity B in Scenario 1a;
 - (b) pre-combination information would be provided for Entity A but not for Entity B in Scenario 1b; and
 - (c) pre-combination information would be provided for Entity B but not for Entity A in Scenario 1c.
28. The staff have considered whether applying Alternative B the receiving entity for accounting purposes should in some cases be different from the receiving entity for

legal purposes, similar to the requirements in IFRS 3, and discussed that question at the June 2019 joint CMAC and GPF meeting. That could be the case, for example, when a NewCo is formed to issue shares to acquire entities or businesses under common control (see Scenario 1a in Figure 1).

29. In principle, applying a predecessor approach to a business combination under common control, the staff think that the receiving entity for accounting purposes should be the same as the receiving entity for legal purposes. This would be consistent with the conceptual rationale and practical considerations for applying a predecessor approach to particular business combinations under common control discussed in June 2019 Agenda Paper 23A *Transactions that do not affect non-controlling shareholders*. As discussed in that agenda paper, identifying a meaningful acquirer in transactions within the scope of the project that do not result in non-controlling shareholders of the receiving entity acquiring residual interest (equity claim) in transferred entities or businesses, may not be possible or may not result in useful information. The staff think that those consideration would equally apply in attempting to identify a receiving entity for accounting purposes that is different from the receiving entity for legal purposes. As stated in paragraph 27 (a), applying this approach in Scenario 1a of Figure 1, NewCo will not provide pre-combination information about either Entity A or Entity B in its primary financial statements. CMAC members who commented on that scenario agreed with such an outcome.
30. However, the staff think that a different logic would apply to transactions under common control that involve a transfer of business but do not meet the definition of a business combination in IFRS 3⁶. That would be the case, for example, when a NewCo is formed to issue shares to acquire a single entity under common control (illustrated in Scenario 3 in Figure 3). Such a transaction could take place, for example, in preparing the acquired business for an initial public offering (IPO). This transaction does not meet the definition of a business combination in IFRS 3 because:
- (a) NewCo cannot be identified as an acquirer applying the requirements of paragraph B18 of IFRS 3; and

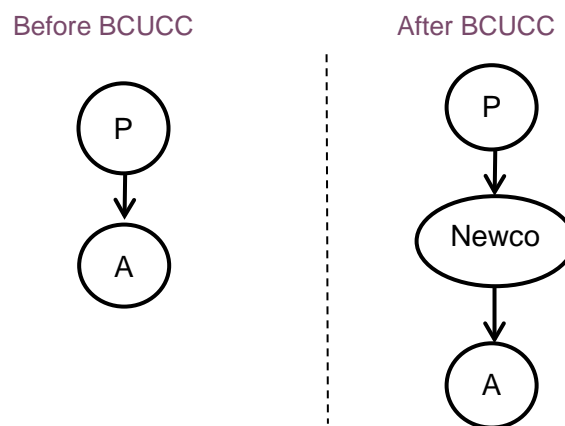
⁶ In October 2017, the Board tentatively decided to clarify that the scope of the BCUCC project includes transactions under common control in which a reporting entity obtains control of one or more businesses, regardless of whether IFRS 3 *Business Combinations* would identify the reporting entity as the acquirer if IFRS 3 were applied to the transaction.

- (b) the acquired entity cannot be identified as an acquirer for accounting purposes because NewCo is not a business (see the definition of the acquirer in IFRS 3).

Figure 3

Scenario 3

Parent P controls and wholly owns Entity A. Entity A is a reporting entity. Newco is formed to issue shares to Parent P in exchange for all shares of Entity A. NewCo is a reporting entity.



Analysis

This transaction does not meet the definition of a business combination in IFRS 3. NewCo that issues shares to carry out a business combination would not be identified as the acquirer applying the requirements of paragraph B18 of IFRS 3. Entity A cannot be identified as the acquirer applying the definitions of an acquirer and an acquiree in IFRS 3 because NewCo is not a business. Applying either Alternative A or Alternative B to this scenario, NewCo would provide pre-combination information for Entity A.

31. Unlike a business combination, such a transaction does not result in bringing businesses together into a single reporting entity; instead, it results in continuation of the existing business in a new legal form. Accordingly, the staff think that the NewCo’s financial statements should reflect the continuation of that existing business and include pre-combination information of that business.

Staff's analysis and recommendation

32. The staff think that in analysing Alternative A and Alternative B for providing pre-combination information applying a predecessor approach it is important to keep in mind when a predecessor approach would apply based on the Board's tentative decisions to date.
33. As discussed at the September 2019 IASB meeting, in principle:
- (a) a current value approach would be applied to transactions that affect non-controlling shareholders in the receiving entity—subject to the exception and the exemption resulting from applying the cost constraint in the *Conceptual Framework* (see paragraph 1); and
 - (b) a predecessor approach would apply to the other transactions within the scope of the project, notably transactions between wholly owned entities that affect lenders and other creditors of the receiving entity and potential equity investors, for example in an IPO.
34. The staff think that providing combined pre-combination information for all combining entities or businesses is conceptually consistent with the argument that transactions that do not result in non-controlling shareholders acquiring residual economic interest (equity claim) in the transferred entities or businesses are not acquisitions and consistent with the idea of 'looking through' the combining entities or business onto the effect on their owners, or potential owners for example in an IPO. As discussed in June 2019 Agenda Paper 23A, the idea of 'looking through' is applied in other GAAPs in determining an appropriate accounting treatment for a business combination under common control. That idea is not new to IFRS Standards either. For example, the *IFRS for SMEs*[®] Standard⁷ discusses preparation of combined financial statements for entities controlled by the same party and IFRS 3 applies a 'look-through' approach to identifying an acquirer in a business combination in particular cases. Finally, the *Conceptual Framework* sets out the concepts for preparing combined financial statements.

⁷ Paragraphs 9.28–9.30 of the *IFRS for SMEs* Standard discuss when and how a combined financial statements could be prepared.

35. The staff also think that pre-combination information for all combining entities would be useful for users and as discussed in paragraphs 16 and 18(b), many stakeholders agree with that view. The staff think that such information would be particularly useful to potential equity investors in an IPO. Considering the scenarios illustrated in Figure 1—unless pre-combination information in primary financial statements is required for all combining entities, potential equity investors in an IPO would receive different information depending on how the legal reorganisation under common control was structured (ie no pre-combination information would be provided about either Entity A or Entity B if NewCo is involved as illustrated in Scenario 1a, or pre-combination information is provided only for one of the combining entities but not for the other depending on which entity is the receiver and which entity is the transferor as illustrated in Scenario 1b and Scenario 1c). However, in all those scenarios the same businesses are being offered to those potential equity investors.
36. Finally, as discussed in paragraphs 6–9, the staff note that pre-combination information for all combining entities or businesses is often required in other GAAPs and based on the staff’s desktop review is the approach most commonly applied in practice.
37. At the same time, the staff agree with the concerns about requiring pre-combination information for all combining entities or businesses in the primary financial statements, in particular:
- (a) as highlighted in paragraph 16(a), while most stakeholders, including users of financial statements, agree that pre-combination information for all combining entities is useful they do not support retrospective presentation of the transaction in primary financial statements because it would provide a picture of a group that did not exist in the past (some stakeholder refer to such information as pro-forma information). Requiring full pre-combination information for all combining entities to be presented in the primary financial statements could also be inconsistent with the local regulatory environment or create audit complications if the pre-combination information for some of the combining entities has not been audited.
 - (b) in some cases, as explained in paragraph 24(b), providing for all combining entities pre-combination information that possesses the qualitative

characteristics of useful financial information could be impracticable. In particular, there are no provisions in IFRS Standards on how to provide carveout historical financial information and there is only limited guidance in the *Conceptual Framework* and in the *IFRS for SMEs* Standard on preparing combined financial statements.

38. Considering the input received in recent consultations, notably with users of financial statements, the staff recommend that the forthcoming discussion paper should set out the preliminary view that, applying a predecessor approach, pre-combination information in the primary financial statements is provided only for the receiving entity.
39. The staff note that such an approach would also be consistent with the requirements of IFRS 3 and IFRS 10, that require the consolidation of an acquired business or subsidiary from the date of acquisition. In addition, it would be less costly for preparers to apply than providing full pre-combination information for all combining entities.
40. The main disadvantage of this approach is that it could result in asymmetric information for potential equity investors, for example in an IPO, depending on how a legal reorganisation was structured, as discussed in paragraph 35. However, the staff note that historical track record for all combining entities is often required in IPO prospectuses. In addition, the Board could require particular pre-combination information applying a predecessor approach in the notes to financial statements. The staff plan to discuss disclosure requirements for business combinations under common control at a future Board meeting.

Question for the Board

Question

Does the Board agree with the staff's recommendation in paragraph 38 that the forthcoming discussion paper should set out the preliminary view that applying a predecessor approach pre-combination information in the primary financial statements is provided only for the receiving entity?

Appendix A—Illustrative numerical example

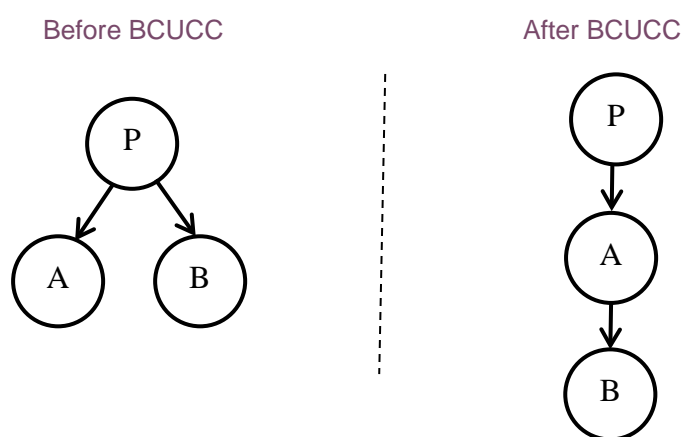
Fact Pattern

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 Entities A and B are aligned (both entities have calendar year ends). There are no intercompany transactions between Entities A and B in the accounting periods presented.

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 carrying amounts of Entity B's net assets are equal to CU110 at the date of the transaction and CU80 at the beginning of the comparative period.

The illustrative presentation of the transaction is as follows:



Alternative A—Pre-combination information is provided for all the combining entities

	<i>Entity A</i>		<i>Entity B</i>		<i>ADJ</i>		<i>CONS/COMB</i>	
	A	B	C	D	E	F	G=A+C+E	H=B+D+F
	201X	201X-1	201X	201X-1	201X	201X-1	201X A&B	201X-1 A&B
Sub B	200	-	-	-	(200)	-	-	-
Other net assets	470	400	115	100	-	-	585	500
Total Net Assets	670	400	115	100	(200)	-	585	500
Share capital	300	100	20	20	(20)	180	300	300
Retained earnings	300	250	80	60	(180)	(180)	200	130
Profit for the period	70	50	15	20	-	-	85	70
Total Equity	670	400	115	100	(200)	-	585	500
Revenue	770	700	150	140	-	-	920	840
Costs	(700)	(650)	(135)	(120)	-	-	(835)	(770)
Profit for the period	70	50	15	20	-	-	85	70

Entity A combines Entity B starting from 1 January 201X-1 and presents pre-combination information in the form of combined financial statements as if Entity A and Entity B had been combined from the beginning of the comparative period. From the date of the transaction, consolidated financial statements are presented. The combined/consolidated profit for the reporting period of CU85 is equal to the sum of the full year profit of Entity A, CU70, and of entity B, CU15. The combined profit in the comparative period CU70 is equal to the sum of the full year profit of Entity A, CU50 and of Entity B, CU20.

The transaction is accounted for as if it had taken place at the beginning of the comparative period. Investment of Entity A in Entity B is eliminated against share capital and retained earnings of Entity B..

Alternative B—Pre-combination information is provided only for the receiving entity

	<i>Entity A</i>		<i>Entity B</i>		E	<i>CONS</i>	
	A	B	C	D		F=A+C+E	G=B
	201X	201X-1	201X	H1 201X	CONS ADJ	201X A&B	201X-1 A
Sub B	200	-	-	-	(200)	-	-
Other net assets	470	400	115	110	-	585	400
Total Net Assets	670	400	115	110	(200)	585	400
Share capital	300	100	20	20	(20)	300	100
Retained earnings	300	250	80	80	(170)	210	250
Profit for the period	70	50	15	10	(10)	75	50
Total Equity	670	400	115	110	(200)	585	400
Revenue	770	700	150	80	(80)	840	700
Costs	(700)	(650)	(135)	(70)	70	(765)	(650)
Profit for the period	70	50	15	10	(10)	75	50

Entity A consolidates Entity B starting from 1 July 201X. Pre-combination information is provided only for the receiving entity—Entity A. The profit for the reporting period of CU75 is equal to the sum of the full year profit of Entity A, CU70, and half year profit of Entity B, CU5. The transaction is accounted for at the date when it occurs. Investment of Entity A in Entity B is eliminated against share capital and retained earnings of Entity B.