CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

# Accounting Standards for Private Enterprises (ASPE) Briefing

## AMALGAMATIONS OF WHOLLY-OWNED ENTERPRISES

Primary Standards:

- Section 3840, *Related Party Transactions*

Related Standards:

- Section 1500, *First-time Adoption*
- Section 1506, *Accounting Changes*
- Section 1582, *Business Combinations*

FINANCIAL REPORTING

CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

# Accounting Standards for Private Enterprises (ASPE) Briefing

## AMALGAMATIONS OF WHOLLY-OWNED ENTERPRISES

## DISCLAIMER

This publication was prepared by the Chartered Professional Accountants of Canada (CPA Canada) as non-authoritative guidance. It has not been approved by the Canadian Accounting Standards Board (AcSB).

CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material.

## About This Publication

The Research, Guidance and Support group of CPA Canada undertakes initiatives to support practitioners and businesses in the implementation of standards.

The views and conclusions expressed in this non-authoritative publication are those of the author. This publication contains general information only and is not intended to be comprehensive or to provide specific accounting, business, financial, investment, legal, tax or other professional advice or services. This publication is not a substitute for such professional advice or services, and it should not be acted on or relied upon or used as a basis for any decision or action that may affect you or your business.

Before making any decision or taking any action that may affect you or your business, you should consult a qualified professional advisor.

This publication has not been updated since the publication date of January 2017. Readers are cautioned that certain aspects of ASPE may have changed since the publication date.

CPA Canada expresses its appreciation to the author, Jane Bowen, FCPA, FCA, for developing this ASPE Briefing and to the members of the Task Force for their contribution to its preparation. Without the valued and dedicated efforts of the Task Force, this publication would not have been possible.

### Author

Jane Bowen, FCPA, FCA

### Task Force

| | |
|---|---|
| Alicia Croskery, CPA, CA | BDO Canada LLP |
| Celeste Murphy, CPA, CA | PwC LLP |
| Jocelyn Patenaude, FCPA, FCA | BCGO S.E.N.C.R.L. |
| Soheil Talebi, CPA, CA | Lipton LLP |
| Mark Walsh, FCPA, FCA | |
| Taryn Abate, CPA, CA, CPA (Illinois) | CPA Canada |

# Table of Contents

# ASPE Briefing: Amalgamations of Wholly-Owned Enterprises

## Introduction

### What Is an Amalgamation?

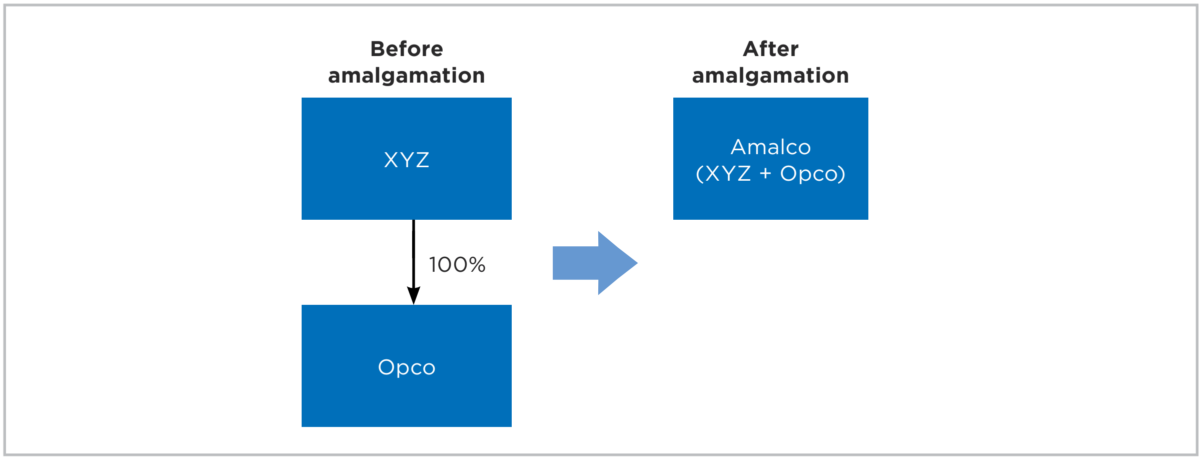
A statutory or legal amalgamation represents a legal process by which two or more corporations ("amalgamating corporations"), governed by the *Canada Business Corporations Act* or by other relevant provincial legislation, merge and carry on as one corporation ("amalgamated corporation").[1]

An amalgamation may be completed for many reasons (e.g., to simplify an organizational structure after acquisitions or for income tax purposes).

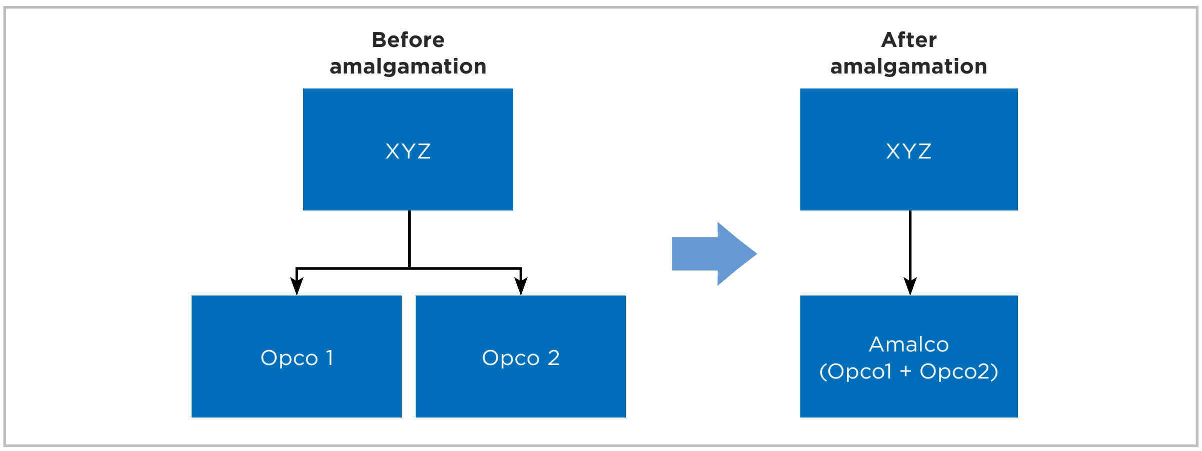
1 www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/cs02719.html

There are generally two types of amalgamations as illustrated below:

1. **Vertical amalgamation** (amalgamation of one or more subsidiaries with a parent company), for example:




2. **Horizontal amalgamation** (combination of two or more subsidiaries), for example:




An amalgamation can take place in many different forms and situations. In some cases, the Articles of Amalgamation may show the amalgamated entity as a continuation of one of the corporations; in other cases, the amalgamation may involve the creation of a new corporation and the cancellation of the shares of the predecessor corporations. It is important to understand the transaction both legally and in substance before the accounting treatment can be determined. Professional judgment is necessary in the application of the appropriate accounting treatment, which can vary depending on the specific facts and circumstances of the transaction being assessed.

In addition to the legal form and substance of the amalgamation, other factors considered in the accounting for amalgamations include, for example, the following:

- needs of the financial statement users (e.g., lenders)
- accounting framework used by the amalgamating enterprises (e.g., whether any of the enterprises have not previously applied ASPE); for such enterprises, transition to ASPE in accordance with Section 1500, *First-time Adoption*, will be required
- applicable standards in ASPE including the accounting policy choices selected by the enterprises involved in the amalgamation:
  - how the parent accounted for the subsidiary in a vertical amalgamation (e.g., the parent may have accounted for its interest in the subsidiary in a vertical amalgamation using the cost method, equity method or consolidation under Section 1591, *Subsidiaries*[2])
  - whether the enterprises involved in the amalgamation followed the same accounting policies within ASPE (e.g., taxes payable, measurement of pension obligations, etc.); a voluntary change in accounting policy may be necessary to facilitate the accounting for the amalgamation, following the guidance in Section 1506, *Accounting Changes*.

## Purpose and Scope of This ASPE Briefing

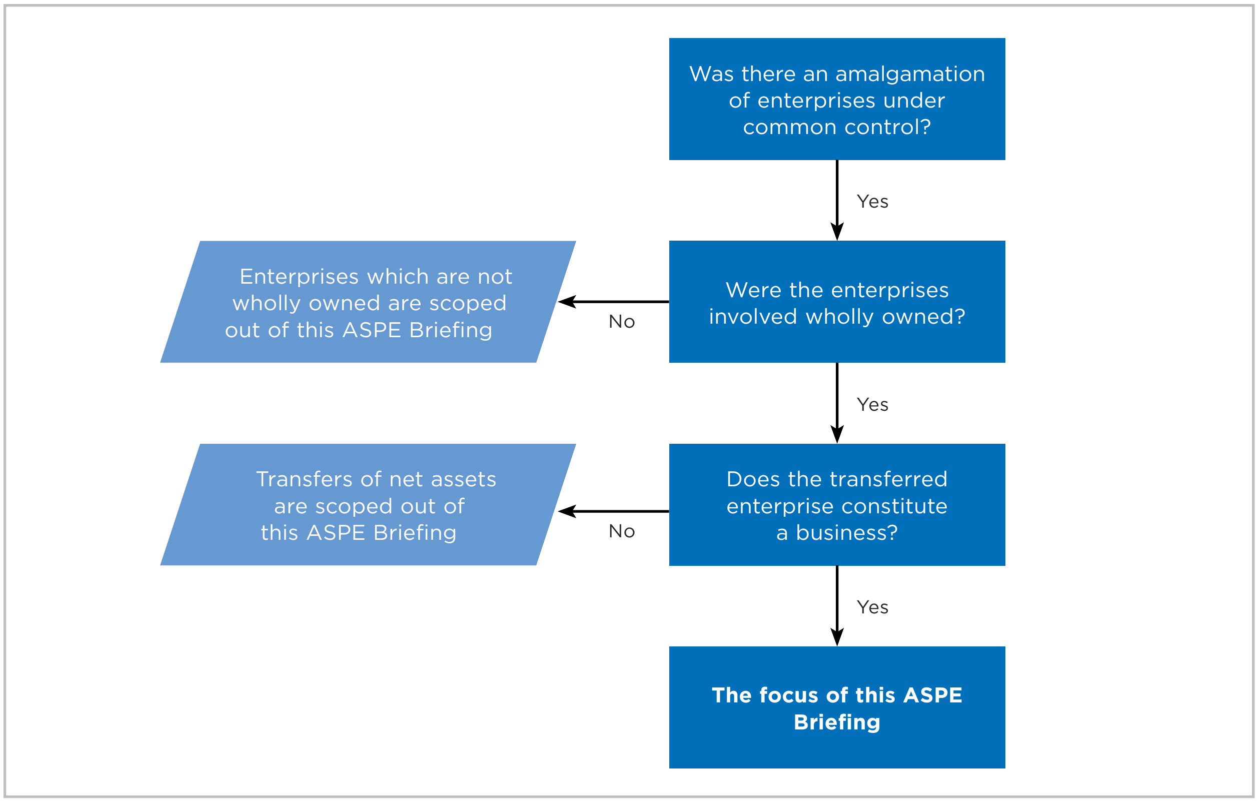
This ASPE Briefing addresses the accounting for amalgamations of wholly-owned subsidiaries that meet the definition of a business.

This ASPE Briefing was developed because of uncertainty related to the appropriate accounting treatment for amalgamations under ASPE. When accounting for an amalgamation under ASPE, some consider Section 1582, *Business Combinations*, as the first source of guidance. However, paragraph 1582.02(b) states that combinations between enterprises under common control are scoped out of Section 1582. It should be noted that the term “common control” is not defined in ASPE.

This ASPE Briefing clarifies that, when accounting for amalgamations of wholly-owned enterprises, the appropriate navigation through the *Handbook* is to first refer to Section 3840, *Related Party Transactions*, because the amalgamation is a related-party transaction.

2 Standards Update: Section 1591 replaced Section 1590 for annual financial statements relating to fiscal years beginning on or after January 1, 2016 (see paragraph 1591.39). However, the accounting policy choices do not change.

As the complexity of an amalgamation increases, so does the need to complete research and use professional judgment. This ASPE Briefing does not cover all complexities; however, Appendix A helps raise awareness by identifying some of the matters that create complexity. The following decision tree illustrates the scope of this ASPE Briefing:




## Terminology

Before describing the particular accounting treatment for amalgamations, it is useful to consider the meaning of certain terms:

**Control:** "**Control** of an entity is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others." (Section 1582.03(g))

**Business**: "a **business** is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants." (Section 1582.03(d))

**Common control**: exists when a single shareholder, a corporation, or a group of shareholders (individuals or corporations) acting together control, directly or indirectly, multiple enterprises. (Not explicitly defined in ASPE, though this is the term used to exclude certain business combinations from the scope of Section 1582).

# Analysis and Application

Generally, in determining the accounting for an amalgamation, the following analysis is relevant:

- determining whether control (or common control) exists
- determining whether the transferred entity constitutes a business
- applying the relevant ASPE requirements

## Determining Whether Control (or Common Control) Exists

In most cases, determining whether control, or common control, exists is straightforward. However, in certain cases determining whether control exists could require judgment as it might be obtained by means other than ownership of a majority of the voting interest in an enterprise. Section 1591 provides further guidance on determining when control exists. Because this ASPE Briefing addresses amalgamations of wholly-owned enterprises, the determination of control will not be discussed further in this document.

## Determining Whether the Transferred Enterprise Constitutes a Business

The enterprises involved in an amalgamation can represent a business or a group of assets. This issue is relevant because the accounting for the amalgamation of a group of assets may differ from one involving businesses. (Note: paragraph 3840.44 only applies to the transfers of a business.)

In certain circumstances, determining whether the transferred item is a business or merely a group of assets will be a matter of professional judgment. The substance of the transfer must be assessed. For example, the legal agreement may refer to it as a sale of assets, but in substance it is a business, or vice versa. In these circumstances, it might be necessary to refer to the Application Guidance paragraphs A3 to A8 included in Appendix A of Section 1582 on what constitutes a business.

## Applying the Relevant ASPE Requirements

### Applying consistent accounting principles

This ASPE Briefing assumes the amalgamation is to be accounted for in accordance with ASPE. Therefore, all enterprises involved in the amalgamation transaction must comply with ASPE requirements. The following situations may arise:

- Both enterprises have applied ASPE in the past, with the same accounting policies.
- Both enterprises have applied ASPE in the past, but with different accounting policies.
- One or more of the enterprises has applied a different Canadian GAAP financial reporting framework (i.e., IFRS).
- One or more of the enterprises has not applied Canadian GAAP (i.e., either ASPE or IFRS)

In addition, the amalgamation may be a trigger to change one or more existing accounting policies such that the amalgamated financial information becomes more relevant (see Section 1506).

As indicated, there will be cases where the enterprises involved in the amalgamation have prepared financial statements in accordance with ASPE, but made different accounting policy choices. The accounting policy choices to be applied to the amalgamated enterprise should be determined and appropriate adjustments made to the enterprises' financial statements prior to accounting for the amalgamation. If there is a change in the accounting policies, Section 1506 is applied.

In other cases, one of the enterprises may not have previously applied ASPE. ASPE needs to be adopted for the post amalgamation accounting of that enterprise's assets, liabilities and activities and for comparative information included in the financial statements. The adoption of ASPE requires the application of Section 1500.

### Determining whether to use exchange amount or carrying amount

When accounting for any related-party transaction (including amalgamations) under ASPE, an enterprise refers first to Section 3840. Depending on the circumstances, the transaction will be measured at the exchange amount or at the carrying amount.

According to paragraph 3840.29, a related-party transaction not undertaken in the normal course of operations (as would be the case for amalgamations) that is a monetary transaction or a non-monetary transaction with commercial substance must be measured at the exchange amount when the following two criteria are met:

1. The change in the ownership interests in the item transferred or the benefit of a service provided is substantive.
2. The exchange amount is supported by independent evidence.

In summary, only when the criteria in paragraph 3840.29 are met (i.e., there is both a substantive change in ownership and the exchange amount is supported by independent evidence) paragraph 3840.44(a) directs you to account for the transaction in accordance with Section 1582. When the criteria in paragraph 3840.29 are not met, the transaction is accounted for in accordance with paragraph 3840.44(b), which is at the carrying amount.

Since this ASPE Briefing deals with amalgamations of wholly-owned enterprises, the two criteria of paragraph 3840.29 are not met. Consequently, the transaction must be measured at the carrying amounts in accordance with paragraph 3840.44(b).

## Comparative Figures

One of the questions that arise in the accounting for an amalgamation is which comparative figures to include in the first set of financial statements. The objective of financial statements is to communicate information useful to investors, creditors and other users in making their resource-allocation decisions and/or assessing management's stewardship (see paragraph 12 of Section 1000, *Financial Statement Concepts*). These comparative figures are required to be meaningful to the users of the financial statements.

Paragraph 3840.44(b) indicates that for a transfer of a business between enterprises under common control, which is measured at the carrying amount, the financial statements of the combined enterprise reflect the earnings, assets and liabilities of the acquired enterprise for the entire period in which the transfer occurred and *for all prior periods*.

The inclusion of comparative figures is consistent with Section 1400, *General Standards of Financial Statement Presentation*, which requires financial statements prepared in accordance with ASPE to include comparative figures, except for some rare circumstances (see paragraphs 12 and 13 of Section 1400).

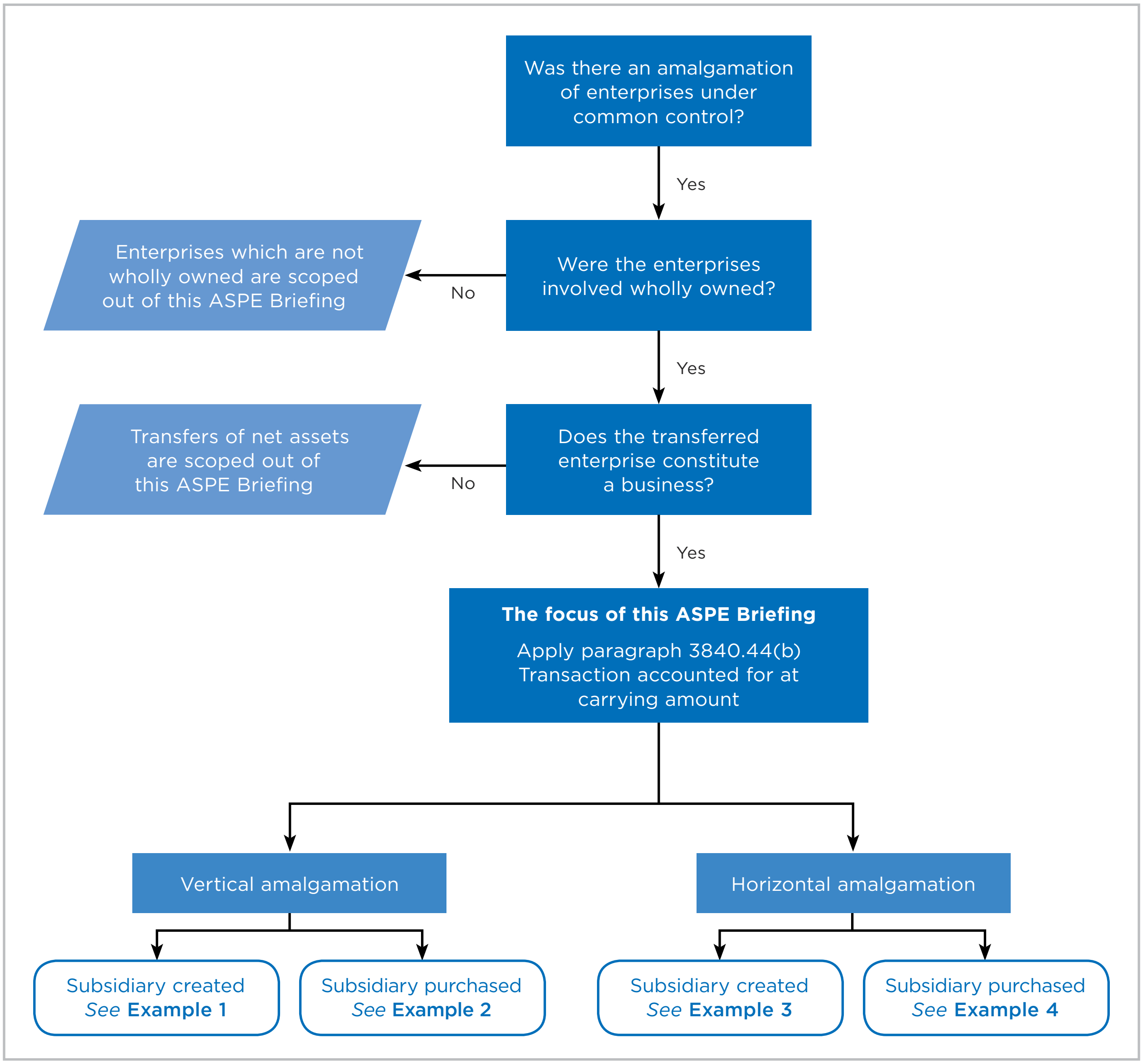
In a **vertical amalgamation**, even if the amalgamated enterprise is legally a continuation of one of the predecessor enterprises, it has been suggested that the amalgamated enterprise could be accounted for as a new enterprise; thus, there would be no comparative figures. However, since control has not changed because of the amalgamation, the financial statements should faithfully represent the nature of the transaction by reflecting the lack of commercial substance in the amalgamation. Accordingly, the comparatives should consist of the consolidated financial information of the parent and its subsidiary.

In a **horizontal amalgamation**, since the amalgamated enterprise did not exist in the prior year, it has been suggested that there are no meaningful comparative figures for these financial statements. However, applying the same arguments above, comparative financial information presented should reflect the combined results of the predecessor subsidiaries.

Therefore, it would be rare that comparative figures are not presented. Generally, the comparatives would be presented as though the entities have always been combined.

## Decision Tree

The examples that follow are based on the different types of amalgamations. This decision tree was introduced earlier in this ASPE Briefing and is now revisited to include a reference to the examples:



Because the form and substance of amalgamations can vary and complexities can arise (see Appendix A), professional judgment is required to determine the accounting. The following examples are some of the more common situations:

| Vertical Amalgamations | | Horizontal Amalgamations | |
|---|---|---|---|
| Subsidiary originally created by parent with no acquisition | Example 1 | Subsidiaries originally created by parent with no acquisition | Example 3 |
| Subsidiary acquired from a non-related party and then amalgamated | Example 2 | Subsidiaries acquired from a non-related party and then amalgamated | Example 4 |
| Parent creates a subsidiary to acquire the net assets of a business then amalgamated | **Similar to** Example 2 | Parent creates a subsidiary to acquire the net assets of businesses then amalgamated | **Similar to** Example 4 |

## Vertical Amalgamation—Examples

The first example is a simple illustration where the subsidiary was created by the parent and the amalgamation is accounted for at the carrying amount. Because there is no difference between the carrying amounts of the investment and the equity issued, the only adjustment required is the elimination of the investment account and the related share capital amount. Example 1 illustrates the amalgamation of XYZ Company (XYZ) and Opco Incorporated (Opco) under this circumstance.

The second example is an illustration where the subsidiary was not created but purchased by the parent from an unrelated party. The amalgamation is still accounted for at the carrying amount. However, in this case, the carrying amount of the investment in the subsidiary is different than the share capital amounts in the subsidiary. Therefore, to eliminate the investment, "consolidation-type" adjustments are recorded based on the information at the time of the original purchase by the parent. Example 2 illustrates the amalgamation of XYZ and Opco under this circumstance.

## Horizontal Amalgamation — Examples

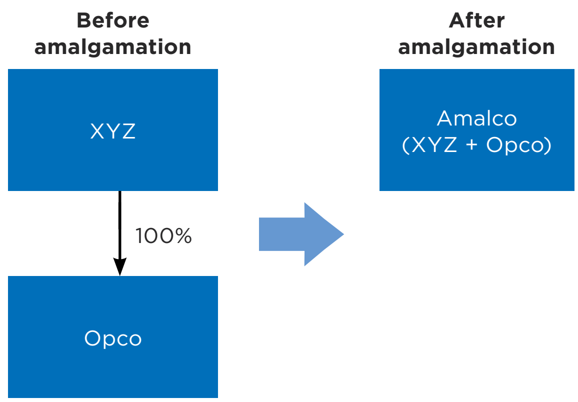
Example 3 is a simple illustration where the subsidiaries were created by the ultimate parent and the amalgamation is accounted for at the carrying amount. Since there are no investment accounts to be eliminated, it is simply the combined amounts at the date of the amalgamation. Example 3 illustrates the amalgamation of Opco1 and Opco2 under this circumstance.

The carrying amounts in the records of Opco1 and Opco2 are used in accordance with paragraph 3840.44(b), which states that (emphasis added) "… the acquiring enterprise records the acquired assets and liabilities **at their carrying amount in the balance sheet of the transferred business** … ."

Example 4 discusses the amalgamation of subsidiaries acquired from a non-related party.

# Example 1: Vertical Amalgamation (Simple)

XYZ Company (XYZ) has always owned 100% of the shares of Opco Incorporated (Opco). Subsequently, XYZ and Opco amalgamate to form Amalco to simplify the corporate structure.




In this case there are no complexities. The investment in Opco recorded by XYZ is the same amount as the share capital issued by Opco. XYZ has elected to account for Opco in accordance with the cost method, as permitted by Section 1591 and there have been no intercompany transactions between Opco and XYZ.

The financial statements immediately prior to amalgamation are as follows:

| | **Non-consolidated Financial Statements of XYZ** | **Opco** |
|---|---|---|
| Current assets | 1,144,000 | 66,000 |
| Property, plant and equipment | - | 237,000 |
| Investment in Opco (Cost method) | 1,000 | - |
| | 1,145,000 | 303,000 |
| Current liabilities | 626,000 | 82,000 |
| Long-term liabilities | - | 427,000 |
| | 626,000 | 509,000 |
| Share capital | 10,000 | 1,000 |
| Retained earnings (Deficit) | 509,000 | (207,000) |
| | 519,000 | (206,000) |
| | 1,145,000 | 303,000 |

The balance sheet of XYZ subsequent to the amalgamation of Opco would be as follows:

| | XYZ | Opco | Adjustments | | XYZ amalgamated |
|---|---|---|---|---|---|
| Current assets | 1,144,000 | 66,000 | | | 1,210,000 |
| Property, plant and equipment | - | 237,000 | | | 237,000 |
| Investment in Opco | 1,000 | - | -1,000 | **AJE 1** | - |
| | 1,145,000 | 303,000 | | | 1,447,000 |
| Current liabilities | 626,000 | 82,000 | | | 708,000 |
| Long-term liabilities | - | 427,000 | | | 427,000 |
| | 626,000 | 509,000 | | | 1,135,000 |
| Share capital | 10,000 | 1,000 | -1,000 | **AJE 1** | 10,000 |
| Retained earnings (Deficit) | 509,000 | (207,000) | | | 302,000 |
| | 519,000 | (206,000) | | | 312,000 |
| | 1,145,000 | 303,000 | | | 1,447,000 |

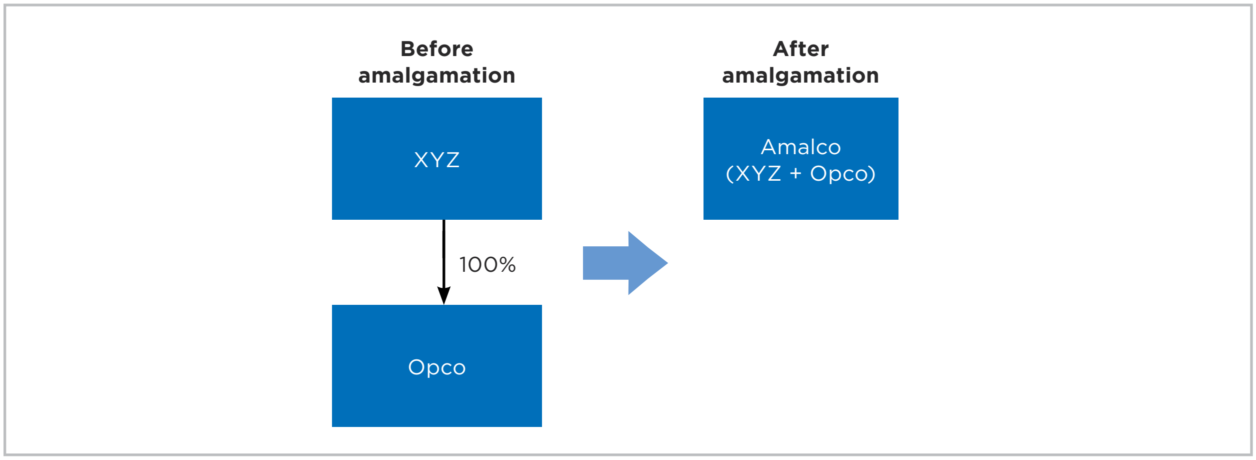
The amalgamation adjusting entry (AJE1) is as follows:

| | | |
|---|---|---|
| Dr. Share capital | $1,000 | |
| Cr. Investment in Opco | | $1,000 |

To eliminate the investment and share capital accounts upon amalgamation.

## Example 2: Vertical Amalgamation (More Complex)

XYZ Company (XYZ) acquires 100% ownership in Opco Incorporated (Opco) from a non-related party. Subsequently, XYZ and Opco amalgamate to form Amalco.




In this example, XYZ acquired the shares of Opco on January 1, 20X1 for $1,476,000 cash consideration. The amalgamation took place on January 1, 20X2. Both XYZ and Opco prepare their stand-alone financial statements in accordance with ASPE. From the date of acquisition, XYZ has elected to account for Opco in accordance with the cost method, as permitted by Section 1591. During the year ended December 31, 20X1, there were no intercompany transactions between Opco and XYZ. Both companies have year ends of December 31.

**Step 1:** Obtain stand-alone opening balance sheets at January 1, 20X2 (the date of amalgamation) for both enterprises (i.e., would be the same as the year ended December 31, 20X1)

- Example 2—Appendix I contains the XYZ stand-alone balance sheet.
- Example 2—Appendix II contains the Opco stand-alone balance sheet.

**Step 2:** Obtain the fair value of all tangible and intangible assets and liabilities of the subsidiary as at the date of the acquisition.

- Example 2—Appendix III contains Opco's fair value of assets and liabilities as at January 1, 20X1 (the date of acquisition).

**Step 3:** Calculate goodwill as at the date of acquisition.

- Example 2—Appendix IV contains the calculation of goodwill based on the fair value of net assets compared to the consideration paid.

**Step 4:** Accounting for the amalgamation

**Step 4(a):** Combine the balance sheet of XYZ and Opco as at the date of amalgamation assuming there were no consolidation adjustments

- Add all the assets and liabilities of XYZ and Opco as at January 1, 20X2, (date of amalgamation) together to prepare the preliminary (opening) Amalco balance sheet

**Step 4(b):** Record amalgamation adjustments

- The purpose of these adjustments is to present the following:
  - combination of the carrying amounts of XYZ and Opco as at the amalgamation date
  - "consolidation-like" adjustments that would have been reflected in the carrying amounts, if XYZ had consolidated Opco from the date of acquisition, January 1, 20X1

- Amalgamation adjustments include:
  - elimination of the investment in subsidiary account
  - elimination of the retained earnings (accumulated deficit) account of Opco as at the date of acquisition (January 1, 20X1)
  - recording goodwill on acquisition of Opco
  - adjusting for fair value increments
  - recording amortization of fair value increments on property and equipment

- Example 2—Appendix V provides the balance sheet amalgamation adjustments and Amalco's opening balance sheet as at January 1, 20X2.

**Step 5: Comparative figures (not illustrated)**

- In the case of the amalgamation as at January 1, 20X2, the first year of amalgamated financial statements will be the year ended December 31, 20X2.

- Economically, there is no difference between this corporate group on December 31, 20X1 and January 1, 20X2 (date of amalgamation). XYZ had control over Opco from the date of acquisition. The fact that now XYZ and Opco are legally one entity does not change the substance of the relationships or the economic value of the group.

- A user of the financial statements will want to see the economic reality of the corporate group in addition to disclosure of the transaction that took place. Control has not changed due to the amalgamation, and as such, the financial statements should faithfully represent the nature of the transaction by reflecting the lack of commercial substance in the amalgamation. Accordingly, the comparatives should consist of the consolidated financial information of XYZ and Opco as the comparative figures.

- As discussed earlier in this ASPE Briefing, the prior year comparative figures should be the consolidated financial statements of XYZ and Opco.

## Example 2—Appendix I: XYZ Balance Sheet

**XYZ**
**Non-consolidated Balance Sheet**
**As at January 1, 20X2**

| | As at January 1, 20X2 |
|---|---|
| **Assets** | |
| Current | |
| Cash | $ 300,000 |
| Prepaids | 40,000 |
| Loans receivable | 1,144,000 |
| | 1,484,000 |
| Investment in subsidiary, at cost | 1,476,000 |
| Property and equipment | 1,067,000 |
| | $ 4,027,000 |
| **Liabilities** | |
| Current | |
| Trade payables and other liabilities | $ 478,000 |
| Deferred revenue | 2,000 |
| Advances payable | 146,000 |
| | 626,000 |
| **Shareholder's Equity** | |
| Share capital | 10,000 |
| Retained earnings | 3,391,000 |
| | 3,401,000 |
| | $ 4,027,000 |

## Example 2—Appendix II: Opco Balance Sheet

**Opco**
**Balance Sheet**
**As at January 1, 20X2**

| | As at January 1, 20X2 |
|---|---|
| **Assets** | |
| Current | |
| Cash | $ 46,000 |
| Prepaid expenses | 20,000 |
| | 66,000 |
| Property and equipment | 237,000 |
| | $ 303,000 |
| **Liabilities** | |
| Current | |
| Accounts payable and accrued liabilities | $ 82,000 |
| Revolving credit facility | 427,000 |
| | 509,000 |
| **Shareholder's Equity** | |
| Share capital | 1,000 |
| Accumulated deficit | (207,000) |
| | (206,000) |
| | $ 303,000 |

## Example 2—Appendix III: Fair Value of Opco's Assets and Liabilities as at the Date of Acquisition

**Opco**
**Fair value of assets and liabilities**
**As at January 1, 20X1 (date of acquisition)**

| | Fair value | Carrying value | Fair value increment (decrement) |
|---|---|---|---|
| **Assets** | | | |
| Current | | | |
| Cash | $ 10,000 | $ 10,000 | $ - |
| Prepaid expenses | 5,000 | 5,000 | $ - |
| | 15,000 | 15,000 | |
| Property and equipment | 1,100,000 | 322,000 | $ 778,000 |
| | $ 1,115,000 | $ 337,000 | |
| **Liabilities** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | $ 95,000 | $ 95,000 | $ - |
| Revolving credit facility | 364,000 | 364,000 | $ - |
| | $ 459,000 | $ 459,000 | |
| **Shareholder's Deficiency** | | | |
| Share capital | | 1,000 | |
| Accumulated deficit | | (123,000) | |
| | | (122,000) | |
| | | $ 337,000 | |

## Example 2—Appendix IV: Calculation of Goodwill at the Date of Acquisition of Opco

**Opco**
**Calculation of Goodwill**
**As at January 1, 20X1**

| | |
|---|---|
| Consideration paid | $ 1,476,000 |
| Less: fair value of net assets ($1,115,000–$459,000) | $ 656,000 |
| **Goodwill** | $ 820,000 |

Note: Section 1582 requires the separate identification of all intangible assets. It is assumed that no unrecognized intangible assets had been identified.

## Example 2—Appendix V: Amalgamated Opening Balance Sheet as at January 1, 20X2

**Amalco**
**Balance Sheet**
**As at January 1, 20X2**

| | XYZ | Opco | Step 4(a): Preliminary balances | Step 4(b): Adjustments | | Amalco |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current | | | | | | |
| Cash | $ 300,000 | $ 46,000 | $ 346,000 | $ - | | $ 346,000 |
| Prepaid expenses | 40,000 | 20,000 | 60,000 | - | | 60,000 |
| Loans receivable | 1,144,000 | - | 1,144,000 | - | | 1,144,000 |
| | 1,484,000 | 66,000 | 1,550,000 | - | | 1,550,000 |
| Investment in subsidiary | 1,476,000 | | 1,476,000 | (1,476,000) | Note 1 | - |
| Property and equipment | 1,067,000 | 237,000 | 1,304,000 | 752,000 | Note 2 | 2,056,000 |
| Goodwill | - | - | - | 820,000 | Note 4 | 820,000 |
| | $ 4,027,000 | $ 303,000 | $ 4,330,000 | $ 96,000 | | $ 4,426,000 |
| **Liabilities** | | | | | | |
| Current | | | | | | |
| Trade payables and other liabilities | $ 478,000 | $ 82,000 | $ 560,000 | $ - | | $ 560,000 |
| Deferred revenue | 2,000 | - | 2,000 | - | | 2,000 |
| Revolving credit facility | - | 427,000 | 427,000 | - | | 427,000 |
| Advances payable | 146,000 | - | 146,000 | - | | 146,000 |
| | 626,000 | 509,000 | 1,135,000 | - | | 1,135,000 |
| **Shareholder's Equity** | | | | | | |
| Share capital | 10,000 | 1,000 | 11,000 | (1,000) | Note 5 | 10,000 |
| Retained earnings (Deficit) | 3,391,000 | (207,000) | 3,184,000 | 97,000 | Note 3 | 3,281,000 |
| | 3,401,000 | (206,000) | 3,195,000 | 96,000 | | 3,291,000 |
| | $ 4,027,000 | $ 303,000 | $ 4,330,000 | $ 96,000 | | $ 4,426,000 |

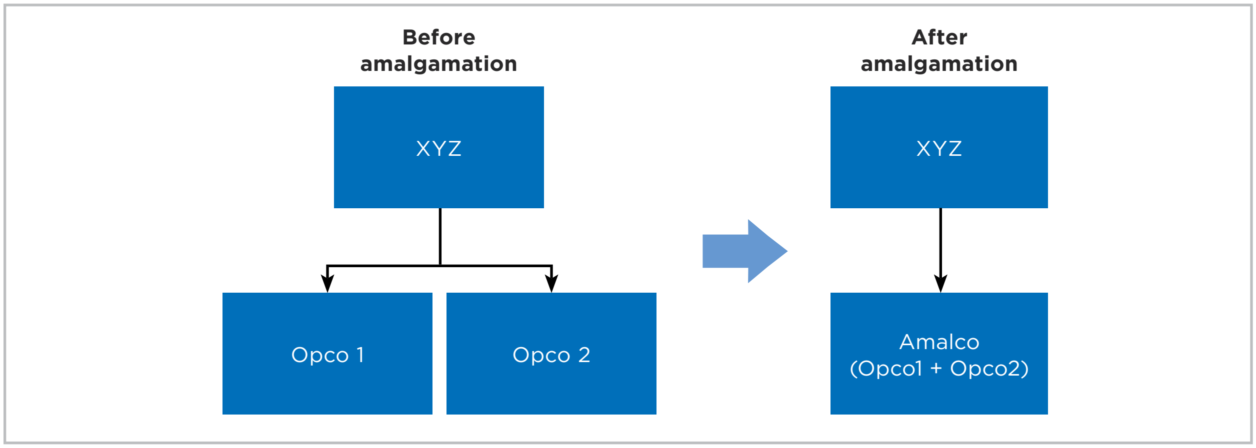
| | |
|---|---|
| **Note 1** | To eliminate investment in Opco. from the balance sheet of XYZ Co. |
| **Note 2** | To add the fair value increment on the date of acquisition of Opco., adjusted for the depreciation thereof:<br>Fair value increment as at January 1, 20X1 — 778,000<br>Less: amortization[1] — 26,000 (rounded)<br>Fair value increment as at December 31, 20X1 — 752,000<br>1 Fair value increment was for the building. Given that the building has a useful life of 30 years, the increment is depreciated at the same rate. |
| **Note 3** | Adjustment of $123,000 to eliminate accumulated deficit of Opco. as at the date of acquisition, January 1, 20X1.<br>Adjustment of $-26,000 to adjust for the amortization of the fair value increment. |
| **Note 4** | To record goodwill on acquisition of Opco. |
| **Note 5** | To eliminate Opco's share capital. |

The amalgamation adjusting entry is as follows:

| | Dr. | Cr. |
|---|---|---|
| Dr. Property and equipment | $ 752,000 | |
| Dr. Goodwill | 820,000 | |
| Dr. Share capital | 1,000 | |
| Dr. Retained earnings | 26,000 | |
| Cr. Deficit of Opco | | $ 123,000 |
| Cr. Investment in subsidiary | | 1,476,000 |

## Example 3: Horizontal Amalgamation (Simple)

XYZ Company (XYZ) is the parent of two wholly-owned subsidiaries Opco 1 Incorporated (Opco1) and Opco 2 Incorporated (Opco2) which are amalgamated to form Amalco.




**Additional facts:**

XYZ created Opco1 and Opco2. The share capital of the subsidiaries equals the investment amount. XYZ amalgamated Opco1 and Opco2 on January 1, 20X2. The bank requires Amalco's stand-alone balance sheet as at January 1, 20X2. All enterprises have a year end of December 31. During the year ended December 31, 20X1, there were no intercompany transactions between Opco1 and Opco2.

**Step 1:** Obtain stand-alone opening balance sheets for Opco1 and Opco2 at January 1, 20X2 (the date of amalgamation) (i.e., would be the same as the year ended December 31, 20X1)

- **Example 3—Appendix I** contains Opco1's stand-alone balance sheet.
- **Example 3—Appendix II** contains Opco2's stand-alone balance sheet.

**Step 2:** Aggregate the carrying amounts of the balances of Opco1 and Opco2 as at January 1, 20X2 to form Amalco's balance sheet as at January 1, 20X2 (date of amalgamation)

- **Example 3—Appendix III** contains the balance sheet of Amalco after adding together the balances of Opco1 and Opco2 as at January 1, 20X2. No adjustments are required to obtain Amalco's opening balance sheet.

## Example 3—Appendix I: Opco1 Balance Sheet as at January 1, 20X2

**Opco1**
**Balance Sheet**
**As at January 1, 20X2**

| | | As at January 1, 20X2 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | $ | 5,000 |
| Marketable securities | | 2,000 |
| Prepaid expenses | | 18,000 |
| | | 25,000 |
| Loans receivable | | 31,000 |
| Property and equipment | | 137,000 |
| | $ | 193,000 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accrued liabilities | $ | 26,000 |
| Deferred revenue | | 21,000 |
| Current portion of capital lease obligation | | 15,000 |
| | | 62,000 |
| Capital lease obligation | | 100,000 |
| | | 162,000 |
| **Shareholder's Equity** | | |
| Share capital | | 1,000 |
| Retained earnings | | 30,000 |
| | | 31,000 |
| | $ | 193,000 |

## Example 3—Appendix II: Opco2 Balance Sheet as at January 1, 20X2

**Opco2**
**Balance Sheet**
**As at January 1, 20X2**

| | As at January 1, 20X2 |
|---|---|
| **Assets** | |
| Current | |
| Cash | $ 8,000 |
| Accounts receivable | 2,000 |
| Prepaid expenses | 18,000 |
| | 28,000 |
| Property and equipment | 62,000 |
| | $ 90,000 |
| **Liabilities** | |
| Current | |
| Accounts payable and accrued liabilities | 5,000 |
| Loan payable | 64,000 |
| | 69,000 |
| **Shareholder's Equity** | |
| Share capital | 1,000 |
| Retained earnings | 20,000 |
| | 21,000 |
| | $ 90,000 |

## Example 3—Appendix III: Amalco Balance Sheet as at January 1, 20X2

**Amalco**
**Balance Sheet**
**As at January 1, 20X2**

| | Opco1 [A] | Opco2 [B] | Amalco [A]+[B] |
|---|---|---|---|
| **Assets** | | | |
| Current | | | |
| Cash | $ 5,000 | $ 8,000 | **$ 13,000** |
| Marketable securities | 2,000 | - | **2,000** |
| Accounts receivable | - | 2,000 | **2,000** |
| Prepaid expenses | 18,000 | 18,000 | **36,000** |
| | 25,000 | 28,000 | **53,000** |
| Loans receivable | 31,000 | - | **31,000** |
| Property and equipment | 137,000 | 62,000 | **199,000** |
| | $ 193,000 | $ 90,000 | **$ 283,000** |
| **Liabilities** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 26,000 | 5,000 | **31,000** |
| Deferred revenue | 21,000 | - | **21,000** |
| Current portion of capital lease obligation | 15,000 | - | **15,000** |
| Loan payable | - | 64,000 | **64,000** |
| | 62,000 | 69,000 | **131,000** |
| Capital lease obligation | 100,000 | - | **100,000** |
| | 162,000 | 69,000 | **231,000** |
| **Shareholder's Equity** | | | |
| Share capital | 1,000 | 1,000 | **2,000** |
| Retained earnings | 30,000 | 20,000 | **50,000** |
| | 31,000 | 21,000 | **52,000** |
| | $ 193,000 | $ 90,000 | **$ 283,000** |

## Example 4: Subsidiaries Acquired from a Non-Related Party and Amalgamated

XYZ Company (XYZ) acquired the shares of Opco 1 Incorporated (Opco1) and Opco 2 Incorporated (Opco2) on January 1, 20X1, for $100,000 and $50,000, respectively, for cash consideration. XYZ Co. amalgamated Opco1 and Opco2 on January 1, 20X2. The bank requires Amalco's stand-alone balance sheet as at January 1, 20X2. All enterprises have a year end of December 31. During the year ended December 31, 20X1, there were no intercompany transactions between Opco1 and Opco2.

The accounting and amalgamation adjustments would be the same as Example 3. There is no requirement to apply "push-down" accounting or amalgamation adjustments to reflect the purchase price by XYZ.

If consolidated financial statements of XYZ, the ultimate parent, were to be prepared, these purchase price adjustments would be recognized upon consolidation.

# Appendix A—Other Matters to Be Considered

This ASPE Briefing focuses on the amalgamation of wholly-owned enterprises. As indicated, there are many different circumstances and forms in which an amalgamation can take place. As the complexities increase, external consultation with other professionals may be helpful to support the exercise of professional judgment in the application of ASPE. This ASPE Briefing should not be used as a substitute for a full assessment of a particular situation.

There are many factors to consider in the determination of the accounting for a specific amalgamation. This ASPE Briefing did not address all factors. Complexity beyond the matters addressed in this ASPE Briefing may arise in the following situations:

1. transfers of assets/enterprises that do not meet the definition of a business accounted for in accordance with Section 3840

2. transactions involving subsidiaries that are less than 100% owned (i.e., may or may not be under common control):
   - it is possible in these situations that there is a substantive change in ownership interest (see paragraphs 3840.35-.36) which may then require the transaction to be measured at the exchange amount (see paragraph 3840.29(a))
   - paragraph 3840.44(a) requires that businesses transferred between enterprises under common control that are measured at the exchange amount be accounted for in accordance with Section 1582
   - these transactions would also involve the complexity of including non-controlling interests

3. transactions involving not-for-profit organizations or by enterprises operating in the public sector

4. preparation of consolidated financial statements for the ultimate parent in a horizontal amalgamation

5. any related implications in the accounting for income taxes under Section 3465, *Income Taxes*, regardless of the accounting policy choice to use the taxes payable method or the future income taxes method

## Availability of Information

Another consideration is the availability of information related to past transactions. If consolidated financial statements were previously prepared by the parent, the information would be available to complete the amalgamation adjustments. However, if consolidated financial statements have not been prepared in the past, or records are not available, the "consolidation-type" amalgamation adjustments described in this ASPE Briefing may require significant estimates. Guidance in Section 1506 on the impracticability of retrospective application may be useful in these circumstances (see paragraphs 30-33 of Section 1506), though meeting the requirements of impracticability should be a rare occurrence.

CHARTERED
PROFESSIONAL
ACCOUNTANTS
CANADA

277 WELLINGTON STREET WEST
TORONTO, ON CANADA M5V 3H2
T. 416 977.3222 F. 416 977.8585
WWW.CPACANADA.CA