This accounting policy paper is based on IPSAS 40 Public Sector Combinations, as adopted by the Treasury of the Republic of Cyprus.

Public Sector Combinations

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1. INTRODUCTION

1.1 OVERVIEW

1.2 OBJECTIVES

The objective of this accounting policy is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects. To accomplish that, this accounting policy establishes principles and requirements for how:

a) A reporting entity classifies a public sector combination as an amalgamation or an acquisition;
b) A resulting entity recognises and measures in its financial statements the identifiable assets received, the liabilities assumed and any non-controlling interest in an amalgamation;
c) A resulting entity recognises and measures components of net assets/ equity and other adjustments recognised in an amalgamation;
d) An acquirer recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation;
e) An acquirer recognises and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and
f) A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a public sector combination.

The aim of this policy is to provide technical accounting guidance for the preparation of financial statements, so as to enable the financial statements to give a true and fair view.

The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this policy in accounting for public sector combinations. This accounting policy applies to a transaction or other event that meets the definition of a public sector combination.

This accounting policy does **not** apply to:

a) The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
b) The acquisition or receipt of an asset or a group of assets (and any related liabilities) that does not constitute an operation. In such cases an entity shall identify and recognise the individual identifiable assets acquired or received (including those assets that meet the definition of, and recognition criteria for, intangible assets in the Accounting Policy for Intangible Assets), and liabilities assumed. Such a transaction or event does not give rise to goodwill.
c) The assumption of a liability or a group of liabilities that does not constitute an operation. In such cases an entity shall identify and recognise the individual liabilities assumed.
d) The acquisition by an investment entity, as defined in the Accounting Policy for Consolidated Financial Statements, of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.

1.4 DEFINITIONS

Acquired operation is the operation that the acquirer gains control of in an acquisition.

Acquirer is the entity that gains control of one or more operations in an acquisition.

Acquisition is a public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.

Acquisition date is the date on which the acquirer gains control of the acquired operation.

An **amalgamation** gives rise to a resulting entity and is either:

a) A public sector combination in which no party to the combination gains control of one or more operations; or
b) A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.

Amalgamation date is the date on which the resulting entity obtains control of the combining operations.

Combining operation is an operation that combines with one or more other operations to form a resulting entity in an amalgamation.

Contingent consideration is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Equity interests, for the purposes of this accounting policy, is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognised.

An asset is **identifiable** if it either:

a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or
b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Input is any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

Mutual entity is an entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.

Operation is an integrated set of activities and related assets and/ or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's

objectives, by providing goods and/ or services. An operation consists of **inputs** and **processes** applied to those inputs that have the ability to create **outputs**.

Output is the result of inputs and processes applied to those inputs that provide, or have the ability to provide, goods and/or services.

Owners, for the purposes of this accounting policy, is used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.

Process is any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates or has the ability to create outputs.

Public sector combination is the bringing together of separate operations into one public sector entity.

Public sector combination under common control is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.

Resulting entity is the entity that is the result of two or more operations combining in an amalgamation. A resulting entity is not initially a party to the public sector combination. A resulting entity may have the legal form of a new entity, or may retain the legal identity of one of the combining operations. However, a resulting entity usually has the economic substance of a new entity. In a combination in which one party to the combination gains control of one or more operations, and in which the economic substance is that of an amalgamation, the nature of the combination is usually that the resulting entity has the substance of a new entity.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in those accounting policies.

2. PUBLIC SECTOR COMBINATIONS

2.1 IDENTIFYING A PUBLIC SECTOR COMBINATION

An entity shall determine whether a transaction or other event is a public sector combination by applying the definitions of this accounting policy, which requires that the assets and liabilities constitute an operation. If the assets and liabilities do not constitute an operation, the entity shall account for the transaction or other event in accordance with other accounting policies. An operation constitutes of inputs, and processes applied to those inputs that have the ability to create outputs. Although operations usually have

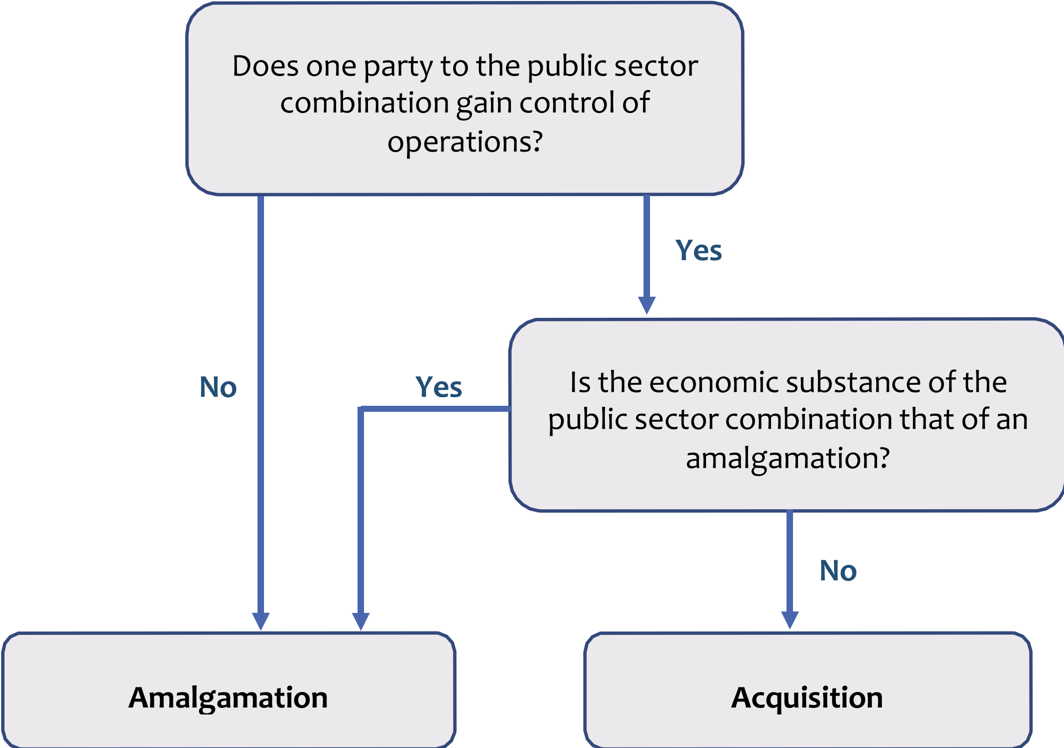
outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as an operation. Determining whether a particular set of activities and assets and/or liabilities is an operation should be based on whether the integrated set is capable of being conducted and managed as an operation by another entity. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a transferor operated the set as an operation or whether the acquirer intends to operate the set as an operation.

In the absence of evidence to the contrary, a particular set of activities and assets and/or liabilities in which goodwill is present shall be presumed to be an operation. However, an operation need not have goodwill.

2.2 Classification of Public Sector Combinations

2.2.1 General

If no party to a public sector combination gains control of one or more operations as a result of the combination, the combination shall be classified as an amalgamation. If one party to a public sector combination gains control of one or more operations as a result of the combination, an entity shall consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition. This process is summarised in the diagram below:



(IPSAS 40: Public Sector Combinations)

In determining the classification of the public sector combination, an entity considers whether the resulting accounting treatment of the combination provides information that meets the objectives of financial reporting and that satisfies the qualitative characteristics (set out in paragraph 2.1.2 of the Accounting Policy for the Presentation of Financial Statements). To assess the economic substance of the combination, an entity considers, individually or in combination, the indicators relating to consideration and to the decision-making process.

2.2.2 Indicators That The Combination Is An Amalgamation

1. Indicators relating to consideration

The following indicators may provide evidence that the combination is an amalgamation:

a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement, for example if the consideration payment is intended to reimburse them for costs incurred in effecting the public sector combination;
b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation, for example where an individual bequeaths an operation to a government entity; or
c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity, for example municipalities or some non-for-profit organisations.

2. Indicators relating to the decision-making process

The following indicators may provide evidence that the combination is an amalgamation:

a) A public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process, for example when the parties to a combination are directed to combine by a regulator;
b) A public sector combination is subject to approval by each party's citizens through referenda; or
c) A public sector combination of two parties under common control occurs, for example a government may decide to combine two ministries for administrative or political reasons, specifying the terms of the combination.

3. ACCOUNTING FOR AMALGAMATIONS

A resulting entity shall account for each amalgamation by applying the modified pooling of interests method of accounting.

3.1 THE MODIFIED POOLING OF INTERESTS METHOD OF ACCOUNTING

I. Requirements

Applying the modified pooling of interests method of accounting requires:

a) Identifying the resulting entity. For each amalgamation, a resulting entity shall be identified.

b) Determining the amalgamation date.

c) Recognising and measuring the identifiable assets received, the liabilities assumed and any non-controlling interests in the combining operations, consistent with the requirements of IPSASs (see paragraph 3.1.1 below).

d) Recognising and measuring the components of net assets/equity and other adjustments from an amalgamation (see paragraph 3.1.2 below).

II. Measurement period

If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the resulting entity shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity shall retrospectively adjust the provisional amounts recognised at the amalgamation date and/ or recognise additional assets and liabilities to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement and/ or recognition of amounts. In any case, the measurement period shall not exceed one year from the amalgamation date.

3.1.1 RECOGNISING AND MEASURING THE IDENTIFIABLE ASSETS RECEIVED, LIABILITIES ASSUMED AND ANY NON-CONTROLLING INTERESTS IN THE COMBINING OPERATIONS

a) Recognition

As of the amalgamation date, the resulting entity shall recognise the identifiable assets, liabilities and any non-controlling interests that are recognised in the financial statements of the combining operations as of the amalgamation date. Recognition of identifiable assets and liabilities received is subject to the elimination of the effects of all transactions between the combining operations in preparing the financial statements of the resulting entity.

At the amalgamation date, the resulting entity shall classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining operations. A resulting entity shall not adopt different classifications or designations on initial recognition, even if this is permitted by other accounting policies.

b) Measurement

The resulting entity shall measure the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, adjusting these carrying amounts where required to conform to the resulting entity's accounting policies.

c) Exceptions to the recognition and/or measurement principles

i. A **licence** or similar right previously granted by one combining operation to another, shall not be eliminated, but instead shall be recognised by the resulting entity as an intangible asset.

ii. **Taxation items** (if any) that are forgiven as a result of the terms of an amalgamation shall not be recognised by the resulting entity. The resulting entity shall recognise and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant accounting policy dealing with income taxes.

iii. The resulting entity shall recognise and measure a liability (or asset, if any) related to the combining operation's **employee benefit** arrangements in accordance with the Accounting Policy for Employee Benefits.

3.1.2 Recognising and Measuring Components of Net Assets/ Equity Arising as a Result of an Amalgamation

a) An amalgamation does not give rise to goodwill.

b) The resulting entity shall recognise within net assets/ equity amounts equal and opposite to the carrying amounts of the combining operations' assets, liabilities and non-controlling interests.

c) The resulting entity shall recognise within net assets/ equity the corresponding adjustments in respect of:

i. The elimination of transactions between combining entities;

ii. Adjustments made to the carrying amounts of the identifiable assets and liabilities of the combining operations, where required to conform to the resulting entity's accounting policies; and

iii. Adjustments made in respect of the exceptions to the recognition and/or measurement principles.

d) The resulting entity may present the amounts recognised within net assets/equity in accordance with paragraphs 3.1.2 (b) and 3.1.2(c) above as either:

i. A single opening balance; or

ii. As separate components of net assets/equity.

3.2 Presentation of Financial Statements

Resulting entity is a new entity

Where a resulting entity is a new entity following a public sector combination, its first set of financial statements following the amalgamation shall comprise:

a) An opening statement of financial position as of the amalgamation date;
b) A statement of financial position as at the reporting date;
c) A statement of financial performance for the period from the amalgamation date to the reporting date;
d) A statement of changes in net assets/equity for the period from the amalgamation date to the reporting date;
e) A cash flow statement for the period from the amalgamation date to the reporting date;

f) A comparison of budget and actual amounts, as a separate additional financial statement, for the period from the amalgamation date to the reporting date in the case that the entity makes publicly available its approved budget; and
g) Notes, comprising a summary of significant accounting policies and other explanatory notes.

Resulting entity is not a new entity

Where a resulting entity is NOT a new entity following a public sector combination, the resulting entity shall disclose:

a) The amounts recognised of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity;
b) Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and
c) Any adjustments made to eliminate transactions between the combining operations.

4. ACCOUNTING FOR ACQUISITIONS

An acquirer shall account for each acquisition by applying the acquisition method of accounting.

4.1 THE ACQUISITION METHOD OF ACCOUNTING

I. Requirements

Applying the acquisition method of accounting requires:

a) Identifying the acquirer. For each acquisition, the party to the combination that gains control of one or more operations shall be identified as the acquirer.

b) Determining the acquisition date. The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquired operation.

c) Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation, (see paragraph 4.1.1 below).

d) Recognising and measuring goodwill, a gain or loss from an acquisition (see paragraph 4.1.2 below).

II. Measurement period

If the initial accounting for an acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date and/ or recognise additional assets and liabilities to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement and/ or recognition of amounts. In any case, the measurement period shall not exceed one year from the acquisition date.

4.1.1 RECOGNISING AND MEASURING THE IDENTIFIABLE ASSETS ACQUIRED, THE LIABILITIES ASSUMED AND ANY NON-CONTROLLING INTEREST IN THE ACQUIRED OPERATION

a) Recognition

As of the acquisition date, the acquirer shall recognise, separately from any goodwill recognised, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation. Recognition of identifiable assets acquired and liabilities assumed is subject to the following conditions:

i. They must meet the definitions of assets and liabilities (as these are included in the relevant accounting policies) at the acquisition date, and be capable of being measured in a way that achieves the qualitative characteristics of information (as these are set out in the Accounting Policy for Presentation of Financial Statements).
ii. They must be part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition transaction rather than the result of separate transactions.

At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other accounting policies. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement (including contractual terms), economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

b) Measurement

The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

The acquirer shall measure, at the acquisition date, any components of non-controlling interest in the acquired operation, which are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, at the present ownership instruments' proportionate share in the recognised amounts of the acquired operation's identifiable net assets.

c) Exceptions to the recognition and/or measurement principles

i. In determining which **contingent liabilities** to recognise as of the acquisition date, the acquirer shall recognise as of the acquisition date a contingent liability assumed in an acquisition where consideration is transferred, if it is a present obligation that arises from past events and its fair value can be measured reliably. The acquirer recognises a contingent liability assumed in an acquisition where consideration is transferred at the acquisition date, even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

ii. **Taxation items** (if any) that are forgiven as a result of the terms of an acquisition shall not be recognised by the acquirer. The acquirer shall recognise and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant accounting policy dealing with income taxes.

iii. The acquirer shall recognise and measure a liability (or asset, if any) related to the acquired operation's **employee benefit** arrangements in accordance with the Accounting Policy for Employee Benefits.

iv. An **indemnification asset** results from the case when the seller in an acquisition contractually indemnifies the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. The acquirer shall recognise obtained indemnification assets at the same time that it recognises the indemnified item measured on the same basis as the indemnified item. If the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognise the indemnification asset at the acquisition date measured at its acquisition-date fair value.

v. The acquirer shall measure the value of a **reacquired right** recognised as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value.

vi. The acquirer shall measure a liability or an equity instrument related to **share-based payment transactions** of the acquired operation or the replacement of an acquired operation's share-based payment transactions with share-based payment

transactions of the acquirer in accordance with the accounting policy dealing with share-based payments.

4.1.2 RECOGNISING AND MEASURING GOODWILL, A GAIN OR A LOSS FROM AN ACQUISITION (OR A GAIN FROM A BARGAIN PURCHASE)

a) The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (i) over (ii) below, subject to the requirements of paragraph 4.1.2(b) of this accounting policy.

   i. The aggregate of:

      - The consideration transferred measured in accordance with this accounting policy, which generally requires acquisition-date fair value;
      - The amount of any non-controlling interest in the acquired operation measured in accordance with this accounting policy;
      - In an acquisition achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.

   ii. The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this accounting policy.

b) The acquirer shall recognise goodwill only to the extent that the acquisition will result in:

   i. The generation of cash inflows (such as the acquisition of a cash-generating operation); and/ or

   ii. A reduction in the net cashflows of the acquirer.

An acquirer shall recognise any further excess of (i) over (ii) in paragraph 4.1.2(a) above as a loss in surplus or deficit. Specifically, the acquirer shall recognise goodwill only to the extent that the acquirer estimates that there will be favourable changes to its net cash flows, either from increased cash inflows or decreased cash outflows. An acquirer shall not recognise goodwill related to service potential other than cash flows.

c) Occasionally in a public sector combination classified as an acquisition, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 4.1.2(a)(ii) exceeds the aggregate of the amounts specified in paragraph 4.1.2(a)(i). The acquirer shall recognise the resulting gain in surplus or deficit on the acquisition date, attributing the gain to the acquirer, in the case that this excess remains after applying the requirements set out below:

i. The acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that review.
ii. The acquirer shall then review the procedures used to measure the amounts this accounting policy requires to be recognised at the acquisition date for all of the following:
   - the identifiable assets acquired and liabilities assumed;
   - the non-controlling interest in the acquired operation, if any;
   - for an acquisition achieved in stages, the acquirer's previously held equity interest in the acquired operation; and
   - the consideration transferred.

5. DISCLOSURE

I. AMALGAMATIONS

1. The resulting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation. Specifically, the resulting entity shall disclose the following information:

a) The name and a description of each combining operation.
b) The amalgamation date.
c) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.
d) The amounts recognised as of the amalgamation date for each major class of assets and liabilities transferred.
e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date to eliminate the effect of transactions between combining operations and to conform to the resulting entity's accounting policies.
f) An analysis of net assets/equity, including any components that are presented separately, and any significant adjustments such as revaluation surpluses or deficits, recognised in accordance with paragraphs 3.1.2(b) and 3.1.2(c) of this accounting policy.
g) If a resulting entity elects to present financial statements for periods prior to the amalgamation date, the resulting entity shall disclose the following information for each combining operation:
   i. A statement of financial position as at the end of the prior period(s);
   ii. A statement of financial performance for the prior period(s);

   iii. A statement of changes in net assets/equity for the prior period(s);
   iv. A cash flow statement for the prior period(s); and
   v. Notes, comprising a summary of significant accounting policies and other explanatory notes.

h) If, at the time the financial statements of the resulting entity are authorised for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity, provided it has not made the election described in paragraph 3.3(1)(g) above, shall disclose the following:
   i. The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date.
   ii. The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.
   iii. The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

2. The resulting entity shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods. Specifically, the resulting entity shall disclose the following information:

a) If the initial accounting for an amalgamation is incomplete (as per paragraph 3.1(II) of this accounting policy) for particular assets or liabilities, and the amounts recognised in the financial statements for the amalgamation have thus been determined only provisionally:
   i. The reasons why the initial accounting for the amalgamation is incomplete;
   ii. The assets or liabilities for which the initial accounting is incomplete; and
   iii. The nature and amount of any measurement period adjustments recognised during the reporting period.
b) If amounts of tax due are forgiven as a result of the terms of the amalgamation (see paragraph 3.1.1(c)(ii) of this accounting policy):
   i. The amount of tax due that was forgiven; and
   ii. Where the resulting entity is the tax authority, details of the adjustment made to tax receivable.

II. ACQUISITIONS

1. The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:

a) During the current period; or

b) After the end of the reporting period but before the financial statements are authorised for issue.

Specifically, the acquirer shall disclose the following information:

a) The name and a description of the acquired operation.
b) The acquisition date.
c) The percentage of voting equity interests or equivalent acquired.
d) The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation including, where applicable, the legal basis for the acquisition.
e) A qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining the operations of the acquired operation and the acquirer, intangible assets that do not qualify for separate recognition or other factors.
f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
    i. Cash;
    ii. Other tangible or intangible assets, including an operation or controlled entity of the acquirer;
    iii. Liabilities incurred, for example, a liability for contingent consideration; and
    iv. Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.
g) For contingent consideration arrangements and indemnification assets:
    i. The amount recognised as of the acquisition date;
    ii. A description of the arrangement and the basis for determining the amount of the payment; and
    iii. An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.
h) For acquired receivables:
    i. The fair value of the receivables;
    ii. The gross amounts receivable in accordance with a binding arrangement; and
    iii. The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.

The disclosures shall be provided by major class or receivable, such as loans, direct finance leases and any other class of receivables.

i) The amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.

j) For each contingent liability recognised in accordance with paragraph 4.1.1(c)(i) of this accounting policy, the information required in paragraph 5.2 of the Accounting Policy for Provisions, Contingent Liabilities and Contingent Assets. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose:

   i. The information required by paragraph 5.3 of the Accounting Policy for Provisions, Contingent Liabilities and Contingent Assets; and

   ii. The reasons why the liability cannot be measured reliably.

k) The total amount of goodwill that is expected to be deductible for tax purposes.

l) For transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the acquisition:

   i. A description of each transaction;

   ii. How the acquirer accounted for each transaction;

   iii. The amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and

   iv. If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

m) The disclosure of separately recognised transactions required by (I) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of financial performance in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed.

n) In an acquisition in which a loss is recognised in surplus or deficit:

   i. The amount of the loss recognised in accordance with paragraph 4.1.2(b) and the line item in the statement of financial performance in which the loss is recognised; and

   ii. A description of the reasons why the transaction resulted in a loss.

o) In a bargain purchase:

   i. The amount of any gain recognised and the line item in the statement of financial performance in which the gain is recognised; and

   ii. A description of the reasons why the transaction resulted in a gain.

p) For each acquisition in which the acquirer holds less than 100% of the quantifiable ownership interests or equivalent in the acquired operation at the acquisition date:

   i. The amount of the non-controlling interest in the acquired operation recognised at the acquisition date and the measurement basis for that amount

q) In an acquisition achieved in stages:
    i. The acquisition-date fair value of the equity interest in the acquired operation held by the acquirer immediately before the acquisition date; and
    ii. The amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquired operation held by the acquirer before the acquisition and the line item in the statement of financial performance in which that gain or loss is recognised.

r) The following information:
    i. The amounts of revenue and expense, and the surplus or deficit of the acquired operation since the acquisition date included in the consolidated statement of financial performance for the reporting period; and
    ii. The revenue and expense, and the surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period.

2. The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to acquisitions that occurred in the period or previous reporting periods. Specifically, the resulting entity shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

a) If the initial accounting for an acquisition is incomplete (as per paragraph 4.1(II) of this accounting policy) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the acquisition have thus been determined only provisionally:
    i. The reasons why the initial accounting for the acquisition is incomplete;
    ii. The assets, liabilities, quantifiable ownership interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and
    iii. The nature and amount of any measurement period adjustments recognised during the reporting period.

b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
    i. Any changes in the recognised amounts, including any differences arising upon settlement;

ii. Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
iii. The valuation techniques and key model inputs used to measure contingent consideration.

c) For contingent liabilities recognised in an acquisition, the acquirer shall disclose the information required by paragraphs 5.1 and 5.2 of the Accounting Policy for Provisions, Contingent Liabilities and Contingent Assets for each class of provision.

d) A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:
i. The gross amount and accumulated impairment losses at the beginning of the reporting period.
ii. Additional goodwill recognised during the reporting period.
iii. Adjustments resulting from the subsequent recognition of amounts during the reporting period in accordance with the relevant accounting policy dealing with income taxes.
iv. Goodwill derecognised during the reporting period.
v. Impairment losses recognised during the reporting period in accordance with the Accounting Policy for Impairment.
vi. Net exchange rate differences arising during the reporting period in accordance with the Accounting Policy for The Effects of Changes in Foreign Exchange Rates.
vii. Any other changes in the carrying amount during the reporting period.
viii. The gross amount and accumulated impairment losses at the end of the reporting period.

e) The amount and an explanation of any gain or loss recognised in the current reporting period that both:
i. Relates to the identifiable assets acquired or liabilities assumed in an acquisition that was effected in the current or previous reporting period; and
ii. Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

f) If amounts of tax due are forgiven as a result of the terms of the acquisition (see paragraph 4.1.1(c)(ii) of this accounting policy):
i. The amount of tax due that was forgiven; and
ii. Where the acquirer is the tax authority, details of the adjustment made to tax receivable.

6. TRANSITIONAL PROVISIONS

No transitional exemptions are elected to be applied on the adoption of IPSAS 40 "Public Sector Combinations".

7. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2024.

8. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 33 First – time Adoption of Accrual Basis IPSASs

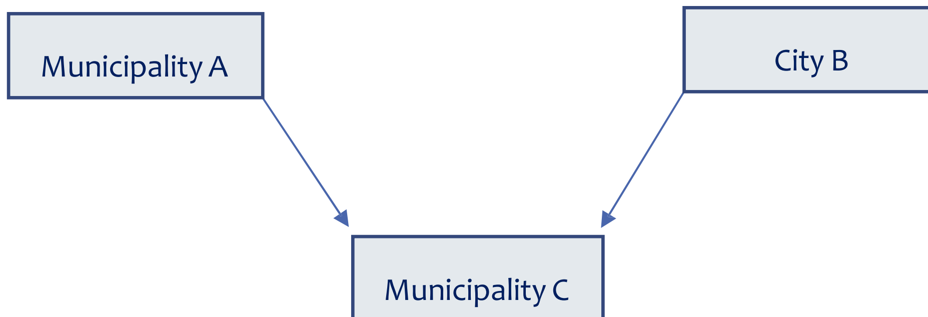
IPSAS 40 Public Sector Combinations

9. APPENDICES

APPENDIX 1: EXAMPLES

1. Reorganisation of local government by combining municipalities into a new legal entity

A new municipality is created by combining all of the operations of two existing municipalities into a new legal entity.



In this example, a public sector combination occurs in which Municipality C is formed to combine the operations (and the related assets, liabilities and components of net assets/ equity) of Municipality A and City B. Prior to the combination, Municipality A and City B are not under common control. The combination is imposed by the provincial government (a third party) through legislation. The provincial government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

(a) The legislation that creates Municipality C provides for the formation of a new governing body with no links to Municipality A or City B. Municipality A and City B have no role in determining the terms of the combination. After the combination, Municipality A and City B cease to exist.

❖ The creation of Municipality C is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has **gained control of operations** as a result of the combination.

  Municipality C has a newly formed governing body, unrelated to the governing bodies of Municipality A and City B. Neither Municipality A and City B has power over Municipality C. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality C.

  Neither Municipality A nor City B have gained control over Municipality C as a result of the public sector combination. Consequently, the combination is classified as an amalgamation.

(b) The legislation that creates Municipality C provides for the governing body of Municipality A to become the governing body of Municipality C.

- *This suggests that as part of the public sector combination that creates Municipality C, Municipality A is gaining control of the operations of City B. However, the assessment as to whether Municipality A is gaining control is based on the substance of the combination, not its legal form. In preparing its first financial statements, Municipality C considers paragraph 2.2 of this accounting policy. In this example it is assumed that the legislation that provides for the governing body of Municipality A to become the governing body of Municipality C results in Municipality A gaining:*
    - i. *Power over the operations of City B;*
    - ii. *Exposure, or rights, to variable benefits from its involvement with those operations; and*
    - iii. *The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.*

  Municipality C concludes that, as a result of the public sector combination, Municipality A has gained control of City B. Municipality C considers paragraph 2.2 of this accounting policy in determining whether the economic substance of the combination is that of an amalgamation.

  *In considering the **economic substance** of the public sector combination, Municipality C notes that the combination does not result in a controlling entity/ controlled entity relationship between Municipality A and City B. This is consistent with both an amalgamation and an acquisition. Municipality C also notes that Municipality A obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but it is not conclusive.*

  *In considering the indicators relating to **consideration**, Municipality C notes that the public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of City B (i.e. there are no former owners of City B with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.*

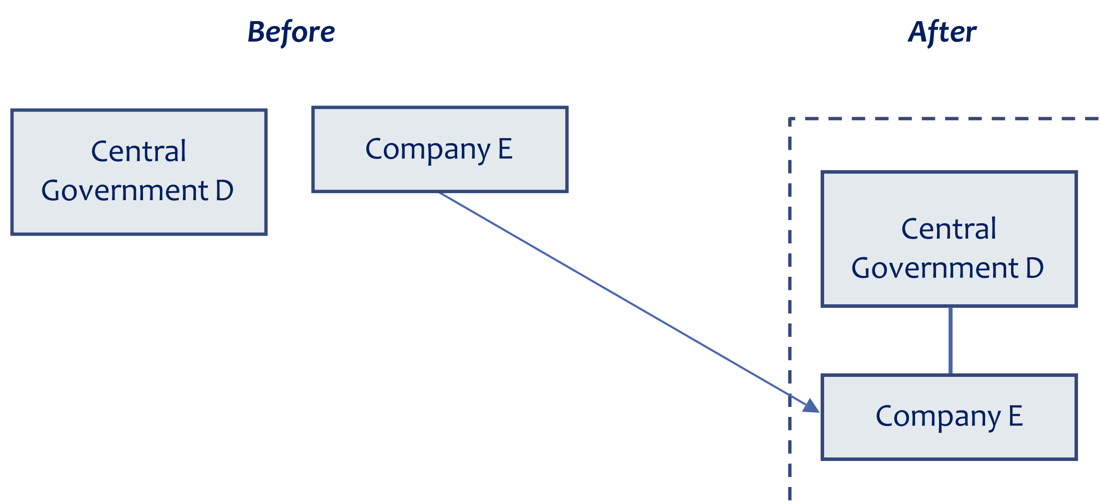
  *In considering the indicators relating to the **decision-making process**, Municipality C notes that the public sector combination was imposed by the provincial government (a third party) and that Municipality A and City B had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.*

  Taking these factors together, Municipality C considers that the public sector combination should be classified as an amalgamation. In coming to this decision,

Municipality C considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

2. Nationalisation of a private sector entity – bailout

A private sector entity is nationalised by a public sector entity by means of a bailout.



In this example, Central Government D nationalises Company E through legislation as a result of a bailout. Prior to the nationalisation, Company E was in financial distress. Central Government D does not pay any consideration to the shareholders of Company E but does assume Company E's net liabilities. Following the purchase, Company E is managed as an arm's-length, stand-alone entity.

- *The nationalisation of Company E is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Central Government D considers is whether it has gained control of operations as a result of the combination. In this example, Central Government D gains:*
    - *i. Power over Company E;*
    - *ii. Exposure, or rights, to variable benefits from its involvement with Company E;*
    - *iii. The ability to use its power over Company E to affect the nature or amount of the benefits from its involvement with Company E.*

  Central Government D concludes that, as a result of the public sector combination, it has gained control of Company E. Central Government D considers the guidance in paragraph 2.2 of this accounting policy in determining whether the economic substance of the combination is that of an amalgamation.

*In considering the **economic substance** of the public sector combination, Central Government D notes that the combination results in a controlling entity/ controlled entity relationship between Central Government D and Company E. This is inconsistent with the economic substance of an amalgamation. Central Government D also notes that, by assuming the net liabilities of Company E, the combination has commercial substance, which is suggestive of an acquisition.*

*In considering the indicators relating to **consideration**, Central Government D notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, Company E has net liabilities that are assumed by Central Government D as part of the compensation. The lack of consideration reflects the fair value of Company E rather than suggesting that the economic substance of the combination is that of an amalgamation. Central Government D concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.*

*In considering the indicators relating to the **decision-making process**, Central Government D notes that Company E does not act voluntarily. The fact that Central Government D (a party to the combination) is able to impose the public sector combination on Company E provides evidence that the economic substance of the combination is that of an acquisition.*

Taking these factors together, Central Government D concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.