

Accounting Standard

AASB 2008-11

November 2008

**Amendments to Australian
Accounting Standard –
Business Combinations
Among Not-for-Profit
Entities**

[AASB 3]



Australian Government

**Australian Accounting
Standards Board**

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2

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CONTENTS

PREFACE

ACCOUNTING STANDARD
AASB 2008-11 AMENDMENTS TO AUSTRALIAN ACCOUNTING
STANDARD – BUSINESS COMBINATIONS AMONG NOT-FOR-
PROFIT ENTITIES

	<i>Paragraphs</i>
Objective	1
Application	2 – 4
Amendments to AASB 3 (March 2008, as amended)	5 – 8

BASIS FOR CONCLUSIONS *Page 9*

Australian Accounting Standard AASB 2008-11 <i>Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities</i> is set out in paragraphs 1 – 8. All the paragraphs have equal authority.
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PREFACE

Background

This Standard makes amendments to AASB 3 *Business Combinations* (March 2008, as amended) as a result of a review by the Australian Accounting Standards Board (AASB), of the suitability of applying the requirements in that Standard for business combinations among not-for-profit entities.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 July 2009, with early adoption permitted for annual reporting periods beginning on or after 30 June 2007 but before 1 July 2009. If an entity applies this Standard to an annual reporting period beginning before 1 July 2009, it shall disclose that fact and apply AASB 127 *Consolidated and Separate Financial Statements* (as amended in March 2008) at the same time.

Main Requirements

Business Combinations among Not-for-Profit Entities

The effect of this Standard is that the requirements of AASB 3 (March 2008, as amended) apply to business combinations among not-for-profit entities (other than restructures of local governments) that are not commonly controlled.

Restructures of Local Governments

The amendments specify the accounting requirements for restructures of local governments as follows:

- (a) transferee local governments shall recognise assets and liabilities transferred from another local government, and any gain or loss;
- (b) transferee local governments shall recognise the assets transferred initially either at the amounts at which the assets were recognised by the transferor local government as at the date of the transfer, or at their fair values; and
- (c) assets and liabilities transferred during the reporting period shall be disclosed separately by class, any gain or loss shall be disclosed in the statement of comprehensive income and the transferor shall be identified.

ACCOUNTING STANDARD AASB 2008-11

The Australian Accounting Standards Board makes Accounting Standard AASB 2008-11 *Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Dated 13 November 2008

Bruce Porter
Acting Chairman - AASB

ACCOUNTING STANDARD AASB 2008-11

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARD – BUSINESS COMBINATIONS AMONG NOT-FOR-PROFIT ENTITIES

Objective

- 1 The objectives of this Standard are to:
 - (a) make the requirements in AASB 3 *Business Combinations* (March 2008, as amended) applicable to business combinations among not-for-profit entities (other than restructures of local governments) that are not commonly controlled, and to allow those requirements to be early adopted by those entities; and
 - (b) include specific recognition, measurement and disclosure requirements in AASB 3 (March 2008, as amended) for restructures of local governments.

Application

- 2 **In respect of AASB 3 (March 2008, as amended), this Standard applies to:**
 - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;**
 - (b) **general purpose financial statements of each other reporting entity; and**

(c) **financial statements that are, or are held out to be, general purpose financial statements.**

3 This Standard applies to annual reporting periods beginning on or after 1 July 2009.

4 This Standard may be applied to annual reporting periods beginning on or after 30 June 2007 but before 1 July 2009. If an entity applies this Standard to an annual reporting period beginning before 1 July 2009, it shall disclose that fact and apply AASB 127 *Consolidated and Separate Financial Statements* (as amended in March 2008) at the same time.

Amendments to AASB 3 (March 2008, as amended)

5 Paragraph Aus1.3 is amended to read as follows:

Aus1.3 This Standard may be applied from the beginning of an annual reporting period that begins on or after 30 June 2007 but before 1 July 2009. If an entity applies this Standard to an annual reporting period beginning before 1 July 2009, it shall disclose that fact and apply AASB 127 *Consolidated and Separate Financial Statements* (as amended in March 2008) at the same time.

6 Paragraph Aus1.5(a) is amended to read as follows:

Aus1.5 When applied or operative, this Standard supersedes:

- (a) AASB 3 *Business Combinations* (July 2004, as amended);
- (b) ...

7 Paragraph Aus1.6 is added as follows:

Aus1.6 Where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement, paragraphs Aus63.1 to Aus63.9 shall be applied.

- 8 The heading and paragraphs Aus63.1 to Aus63.9 are added as follows:

Restructures of Local Governments

Aus63.1 Where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement, the transferee local government shall recognise assets and liabilities and any gain or loss.

Aus63.2 Assets transferred to a local government from another local government at no cost, or for nominal consideration, by virtue of legislation, ministerial directive or other externally imposed requirement shall be recognised initially either at the amounts at which the assets were recognised by the transferor local government as at the date of the transfer, or at their fair values.

Aus63.3 A restructure of local governments involves the transfer of assets and liabilities of a local government to another local government, at no cost or for nominal consideration, by virtue of legislation, ministerial directive or other externally imposed requirement. This gives rise to assets and liabilities and a gain or loss of the transferee local government. A restructure of local governments may take the form of a new local government being constituted and other local governments being abolished as a result of a State government's policy to effectively amalgamate a number of local governments.

Aus63.4 A restructure of local governments involves a change in the resources controlled by the local governments involved in the restructure. The transferor local government will decrease its assets by the carrying amount of the assets transferred. The transferred assets will usually be recognised by the transferee at their carrying amounts in the books of the transferor at the time of the transfer. Such amounts provide a practical basis for recognising the transfer of assets, particularly when many assets are involved, as is usually the case in a restructure of local governments. However, the recognition of transferred assets at fair value is permitted by this Standard.

Aus63.5 The restructures of local governments referred to in paragraphs Aus63.3 and Aus63.4 do not involve transfers between the local government and its ownership group but give rise to a gain or loss that is recognised in the statement of comprehensive income.

Aus63.6 Assets and liabilities transferred during the reporting period and recognised in accordance with paragraph Aus63.1 shall be disclosed separately, by class, by way of note or otherwise, and the transferor local government shall be identified.

Aus63.7 Any gain or loss recognised in accordance with paragraph Aus63.1 shall be separately disclosed in the statement of comprehensive income.

Aus63.8 The disclosures required by paragraph Aus63.6 will assist users to identify the assets and liabilities recognised as a result of a restructure separately from other assets and liabilities and to identify the transferor local government. In addition, the disclosures required by paragraph Aus63.7 will assist users to identify separately the gain or loss which results from a restructure of local governments.

Aus63.9 Local governments are not required to apply paragraphs 59 to 63 and the related Appendix B Application Guidance paragraphs of this Standard when disclosing information about restructures of local governments.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 2008-11.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB) decisions in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.

Significant Issues

- BC2 The AASB issued a revised AASB 3 *Business Combinations* in March 2008. At that time, the Board decided that the requirements of AASB 3 (March 2008) should only be available for early adoption by for-profit entities, until further work was undertaken on the implications of applying the requirements of AASB 3 (March 2008) to not-for-profit entities. Accordingly, the Board included in the Preface to AASB 3 (March 2008) the following statement:

Prior to the mandatory application date of this Standard, being 1 July 2009, the AASB will consider its suitability for combinations among not-for-profit entities. In doing so, the AASB will have regard to the criteria being developed for judging when IFRSs should be modified for application by not-for-profit entities. Those criteria will assist in clarifying whether this Standard should be amended to include an additional scope exclusion or other amendments and, if so, the extent of that exclusion or other amendments in an Australian not-for-profit context. In light of this, not-for-profit entities cannot adopt this Standard prior to the mandatory application date.

- BC3 As part of its subsequent deliberations, the Board noted the view of some that the difficulties in applying the acquisition method when a business combination does not involve consideration (including the difficulties of identifying an acquirer), which is often the case in business combinations among not-for-profit entities, means that the principles in AASB 3 (March 2008) are inappropriate for such combinations. However, the Board decided that, in principle, there is no conceptual basis for accounting for business combinations among not-for-profit entities differently from other analogous types of business combinations.
- BC4 In particular, the Board noted that the types of difficulties noted in paragraph BC3 are also issues that may be encountered in business combinations of for-profit entities (such as combinations by contract

alone). Therefore, consistent with transaction-neutral principles, the Board did not consider that there was sufficient reason to justify a different accounting treatment for business combinations among not-for-profit entities.

- BC5 The Board observed that the motivations for business combinations among not-for-profit entities, such as to provide their beneficiaries with a broader range of, or access to, services and cost savings through economies of scale, are similar to those for business combinations among other entities. The Board noted a possible alternative to the acquisition method in AASB 3 for business combinations among not-for-profit entities might be the ‘fresh start’ method, especially where it is difficult to identify the acquirer. The fresh start method assumes that none of the combining entities survives the business combination as an independent reporting entity. Rather, the business combination is viewed as a transfer of the net assets of the combining entities to a new entity that assumes control over them. The Board noted the potential significant costs and practical difficulties that a fresh start alternative would impose, and therefore concluded that the potential advantages of using the fresh start method for some business combinations among not-for-profit entities would be outweighed by the disadvantages.
- BC6 However, the Board noted that the accounting for business combinations may differ depending on whether entities, such as local governments or universities, are commonly controlled. In that regard, the Board confirmed that further work should be undertaken on its longer-term ‘control in the public sector’ project, which should include consideration of whether local governments or universities within a jurisdiction are subject to common control.
- BC7 In the interim, the Board decided to maintain the status quo in respect of accounting for restructures of local governments by substantially incorporating the requirements originally transferred from AAS 27 *Financial Reporting by Local Governments* to superseded AASB 3 (as amended in December 2007 by AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31*) into revised AASB 3 (March 2008, as amended). The Board noted that the relief carried forward from AAS 27 might be impacted by the progress it makes on its ‘control in the public sector’ project.
- BC8 The Board noted that this approach to restructures of local governments, consistent with its general approach to the short-term review of AASs 27, 29 and 31, is pragmatic and a consequence of the past requirements in AAS 27.

BC9 The Board also considered the amendments made by the New Zealand Financial Reporting Standards Board to revised NZ IFRS 3 *Business Combinations* (March 2008) in the context of business combinations among not-for-profit entities, including definitions of public benefit entities, business and equity interests. In making its decision, the Board considered the work undertaken to date on Invitation to Comment ITC 14 *Not-for-Profit Entity Definition and Guidance*, which sought input on using the definition and guidance from NZ IAS 1 *Presentation of Financial Statements* in Australia. The Board suspended further work on ITC 14 until the development of guidelines that can be used for modifying IFRSs for application by not-for-profit entities. In light of this, the Board decided that no further changes should be made to AASB 3 (March 2008, as amended) in respect of not-for-profit entities.