Accounting Standard **AASB 2005-6**

June 2005

Amendments to Australian Accounting Standards

[AASB 3]

Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 2005-6 *Amendments to Australian Accounting Standards* is set out in paragraphs 1 - 17. All the paragraphs have equal authority.

PREFACE

Standard Amended by AASB 2005-6

This Standard makes consequential amendments to the Australian Accounting Standard AASB 3 *Business Combinations*.

The Australian Accounting Standards Board (AASB) issued AASB 3 in July 2004. The AASB has become aware of some concerns that the presence of the Australian definition of "contribution by owners" in AASB 3 may give rise to different treatments compared with the treatments under International Financial Reporting Standards (IFRSs).

The AASB considered various options for dealing with these concerns. In March 2005 the AASB issued an Invitation to Comment (ITC) including a proposal to amend AASB 3 by deleting the definition of contribution by owners from AASB 3 and rewriting AASB 3 paragraph Aus56.1.

The majority of respondents supported the proposal to amend AASB 3. In addition, some respondents commented that business combinations involving entities or businesses under common control should not be within the scope of AASB 3 in the same way that these transactions are scoped out of IFRS 3 *Business Combinations.*

Entities that comply with the requirements of AASB 3 as amended by this Standard, will simultaneously be in compliance with the requirements of the corresponding IFRS, being IFRS 3.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2006 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Main Requirements

This amendment adopts the IFRS 3 scope exclusion for business combinations involving entities or businesses under common control.

ACCOUNTING STANDARD AASB 2005-6

The Australian Accounting Standards Board makes Accounting Standard AASB 2005-6 *Amendments to Australian Accounting Standards* under section 334 of the *Corporations Act 2001*.

D.G. Boymal
Dated 22 June 2005 Chair – AASB

ACCOUNTING STANDARD AASB 2005-6

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS

Objective

1. The objective of this Standard is to make amendments to Accounting Standard AASB 3 *Business Combinations*.

Application

2. This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial reports of each other reporting entity; and

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

3. This Standard applies to annual reporting periods beginning on or after 1 January 2006.

4. This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2006. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Standard to such annual reporting periods when an election has been made in accordance with subsection 334(5) of the

Corporations Act. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

5. This Standard will be registered on the Federal Register of Legislative Instruments together with its Explanatory Statement, in accordance with the *Legislative Instruments Act 2003*.

Amendments to AASB 3

6. Repeal paragraph 2 of AASB 3, as issued in July 2004, and replace with:

   2 Except as described in paragraph 3, entities shall apply this Standard when accounting for business combinations.

7. Repeal subparagraph (b) of paragraph 3 of AASB 3, as issued in July 2004, and replace with:

   3 ……

   (a) ……

   (b) *business combinations involving entities or businesses under common control*;

   (c) ……

8. Repeal paragraphs Aus3.1 and Aus3.2 of AASB 3, as issued in July 2004.

9. The following heading is added after paragraph 9:

   ### Business combinations involving entities under common control

10. Repeal paragraphs 10, 11, 12 and 13 of AASB 3, as issued in July 2004, and replace with:

    10 A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

    11 A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively

have the power to govern its financial and operating policies so as to obtain benefits from its activities. Therefore, a business combination is outside the scope of AASB 3 when the same group of individuals has, as a result of contractual arrangements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory.

12 An entity can be controlled by an individual, or by a group of individuals acting together under a contractual arrangement, and that individual or group of individuals may not be subject to the financial reporting requirements of Australian Accounting Standards. Therefore, it is not necessary for combining entities to be included as part of the same consolidated financial statements for a business combination to be regarded as one involving entities under common control.

13 The extent of *minority interest*s in each of the combining entities before and after the business combination is not relevant to determining whether the combination involves entities under common control. Similarly, the fact that one of the combining entities is a subsidiary that has been excluded from the consolidated financial statements of the group in accordance with AASB 127 is not relevant to determining whether a combination involves entities under common control.

11. Repeal paragraph Aus56.1 of AASB 3, as issued in July 2004.

12. Repeal the introduction to paragraph 57 of AASB 3, as issued in July 2004, and replace with:

57 A gain recognised in accordance with paragraph 56 could comprise one or more of the following components:

……

13. Repeal subparagraph (b)(ii) of paragraph 62 of AASB 3, as issued in July 2004, and replace with:

62 ……

(a) ……

(b) ……

(i) ……

(ii) goodwill or any gain recognised in accordance with paragraph 56 shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognised or adjusted;

(iii) ……

14. Repeal subparagraphs (g) and (h) of paragraph 67 of AASB 3, issued in July 2004, and replace with:

67 ……

(f) ……

(g) the amount of any excess recognised in profit or loss in accordance with paragraph 56, and the line item in the income statement in which the excess is recognised;

(h) a description of the factors that contributed to a cost that results in the recognition of goodwill – a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset's fair value could not be measured reliably – or a description of the nature of any excess recognised in profit or loss in accordance with paragraph 56; and

(i) ……

15. The defined term “business combination involving entities or businesses under common control” is inserted in Appendix A *Defined Terms* as follows.

…….

business combination involving entities or businesses under common control	A **business combination** in which all of the combining entities or **businesses** ultimately are **controlled** by the same party or parties both before and after the combination, and that **control** is not transitory.

…….

16. Repeal Appendix A *Additional Australian Defined Terms* of AASB 3, as issued in July 2004.

17. Repeal the Appendix B *Application Supplement* paragraph B9 of AASB 3, as issued in July 2004, and replace with:

B9 Consolidated financial statements prepared following a reverse acquisition shall reflect the fair values of the assets, liabilities and contingent liabilities of the legal parent (i.e. the acquiree for accounting purposes). Therefore, the cost of the business combination shall be allocated by measuring the identifiable assets, liabilities and contingent liabilities of the legal parent that satisfy the recognition criteria in paragraph 37 at their fair values at the acquisition date. Any excess of the cost of the combination over the acquirer’s interest in the net fair value of those items shall be accounted for in accordance with paragraphs 51-55. Any excess of the acquirer’s interest in the net fair value of those items over the cost of the combination shall be accounted for in accordance with paragraph 56.