



# **Exposure Draft**

## **Proposed Accounting Standards for Private Enterprises**

# **Accounting for Common Control Combinations**

**December 2024**

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**Comments to the AcSB must be received by February 14, 2025.**

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We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this [online form](#).

Please address your response to:

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This Exposure Draft reflects proposals made by the Accounting Standards Board (AcSB). Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

## HIGHLIGHTS

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to amend RELATED PARTY TRANSACTIONS, [Section 3840](#), in Part II of the CPA Canada Handbook – Accounting. These proposed narrow-scope amendments address accounting for a combination between enterprises or businesses under common control.

The amendments will apply to private enterprises applying the standards in Part II of the Handbook, as relevant.

## Background

In September 2023, the AcSB issued amendments to Section 3840. The amendments allowed an option in [paragraph 3840.44\(b\)](#) to either retrospectively restate prior periods when carrying amounts are used to account for a combination under common control, or to prospectively account for these transactions from the date the transfer occurred. The amendments are effective for fiscal years beginning on or after January 1, 2025, with earlier application permitted.

Since issuing the amendments, the AcSB received an application question regarding the comparative figures to be presented, if any, when a transaction is accounted for prospectively from the date the transfer occurred in accordance with [paragraph 3840.44\(b\)\(i\)](#).

The AcSB considered the application question using its [Guidance Framework](#), and, through discussions with its Private Enterprise Advisory Committee, it is aware of differing views emerging in practice. One view is that an enterprise must identify an acquirer and report the comparative figures of the acquiring entity. Another view is that an enterprise should apply professional judgment to consider the information needs of its financial statement users, and, in some scenarios, there could be no comparative figures presented.

The AcSB considered this feedback and noted that the current language in [paragraph 3840.44\(b\)](#) could infer that determining an acquirer is required when carrying values are used to account for the transaction prospectively from the date that the combination occurred. The Board discussed that identifying an acquirer could be complex or onerous for private enterprises in some scenarios.

The AcSB proposes to amend [paragraph 3840.44\(b\)](#) to address this narrow issue.

## Main features of the Exposure Draft

When carrying values are used to account for a combination under common control and an enterprise chooses to account for the combination prospectively from the transaction date, the proposed amendments allow an option in [paragraph 3840.44\(b\)](#) to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises.

The option to account for the combination retrospectively for the entire period in which the combination occurred and for all prior periods continues to be available.

## Timing of Adoption and Transitional Provisions

The AcSB expects to issue the final amendments in the third quarter of 2025. The proposals would apply prospectively for annual periods beginning on or after January 1, 2026, with earlier application permitted.

## Consequential amendments

As required, consequential amendments will be made to other standards in Part II of the Handbook.

## Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation with the Board's [Private Enterprise Advisory Committee](#) and [Medium and Small Practitioners Advisory Committee](#).<sup>1</sup> The Committees assist the Board in maintaining and improving accounting standards for private enterprises.

The AcSB will provide updates about its deliberations in its decision summaries and on the [project page](#). Once the deliberation process is complete and the due process procedures for finalizing a standard are carried out, the Board plans to issue the amendments in September 2025 if no significant changes are required to the proposals.<sup>2</sup>

## Comments requested

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

While the AcSB welcomes comments on all aspects of the proposal in this Exposure Draft, it particularly welcomes comments on the questions listed below:

- 1 The AcSB proposes options in [paragraph 3840.44\(b\)](#) to allow enterprises to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises when carrying values are used to account for a combination under common control and an enterprise chooses to account for the combination prospectively from the transaction date. Do you agree with the proposal in paragraph 3840.44(b)? If not, why not and what alternatives should the Board consider?
- 2 The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. The Board also proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.
  - (a) Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted? If not, why not?
  - (b) Do you agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied? If not, why not?

The deadline for providing your comment letter to the AcSB is February 14, 2025. Comment on this document by uploading your response letter via this [online form](#).

<sup>1</sup> The AcSB's Medium and Small Practitioners Advisory Committee was formerly the Small Practitioners Working Group.

<sup>2</sup> Refer to the "Due Process Specifically Related to Domestic Standards" in the [AcSB Standard-setting Due Process Manual](#).

Amendments would be made to the following Section as indicated below. The Exposure Draft denotes additional text by underlining and deleted text by strikethrough.

## RELATED PARTY TRANSACTIONS, SECTION 3840

...

### Transaction not in the normal course of operations

...

- .44 Except as specified in SUBSIDIARIES, paragraph 1591.26A(a), a business combination transferred between two enterprises under common control is accounted for as follows:
- (a) The transaction is accounted for in accordance with BUSINESS COMBINATIONS, Section 1582, when:
    - (i) the transaction is a monetary transaction, or a non-monetary transaction that has commercial substance;
    - (ii) the change in the ownership interests transferred is substantive; and
    - (iii) the amount of consideration paid or received is established and agreed to by related parties and is supported by independent evidence.
  - (b) When the criteria in paragraph 3840.44(a) are not met, the acquiring combined enterprise ~~records~~ recognizes the acquired combined assets and liabilities at their historical carrying amount in the balance sheet of the ~~transferred combined~~ business and, if appropriate, recognizes a non-controlling interest in accordance with NON-CONTROLLING INTERESTS, Section 1602. Any change in the non-controlling interest is recognized as an equity transaction in accordance with Section 1602. For each transaction, the financial statements of the combined enterprise shall present the earnings, assets and liabilities of the acquired combined enterprises in ~~either one~~ of the following ways:
    - (i) from the date that the ~~transfer~~ combination occurred as a new entity;
    - (ii) from the date that the combination occurred as a continuation of one of the combining enterprises; or
    - (iii) for the entire period in which the ~~transfer~~ combination occurred and for all prior periods.

...

### EFFECTIVE DATE AND TRANSITION

...

- .66 Amendments to paragraph 3840.44 issued in [September 2025] apply prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g) to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted. An enterprise applies these amendments to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

## BASIS FOR CONCLUSIONS

### Introduction

- 1 This document summarizes considerations that were deemed significant by members of the AcSB in reaching their conclusions to develop narrow-scope proposals to amend RELATED PARTY TRANSACTIONS, [Section 3840](#), in Part II of the Handbook. This document sets out the reasons the Board undertook to develop the proposals, the process of research and deliberation, the key decisions made and the principal reasons for adopting the positions taken and rejecting others.
- 2 In developing these proposals, the AcSB sought the advice of its Private Enterprise Advisory Committee and its Medium and Small Practitioners Advisory Committee.<sup>1</sup> The Private Enterprise Advisory Committee includes financial statement users, auditors and preparers with a range of backgrounds and experience from across Canada. Members include representatives from organizations of differing sizes and in a variety of industries. The Medium and Small Practitioners Advisory Committee includes auditors and practitioners from smaller firms across Canada.

### Background

- 3 In September 2023, the AcSB issued amendments to Section 3840 (the Related Party Transactions amendments). The amendments allowed an option in paragraph 3840.44(b) to either retrospectively restate prior periods when carrying amounts are used to account for a combination under common control, or to prospectively account for these transactions from the date the transfer occurred. The amendments are effective for fiscal years beginning on or after January 1, 2025, with earlier application permitted.
- 4 Since issuing the amendments, the AcSB received an application question regarding the comparative figures to be presented, if any, when a transaction is accounted for prospectively from the date the transfer occurred in accordance with paragraph 3840.44(b)(i).
- 5 The AcSB considered the question using its [Guidance Framework](#). Through discussions with Private Enterprise Advisory Committee, the AcSB became aware of differing views in practice. One view is that an enterprise must identify an acquirer and report the comparative figures of the acquiring entity. Some Committee members preferred this view because there would have been business activities prior to the combination date that would be useful to report.
- 6 Another view is that an enterprise should apply professional judgment to consider the information needs of its financial statement users when deciding which comparative figures to present, and, in some scenarios, there could be no comparative figures. Some Committee members preferred this view because it's not always clear who an acquirer is in a combination between entities under common control. In addition, in some scenarios, the comparative information of one of the combining entities may not be available or complete.
- 7 Other Committee members thought that both views are supportable, and a different conclusion might be reached depending on the scenario and the needs of the financial statement users.
- 8 Given the diverse views, the Committee recommended that the AcSB issue guidance to clarify the application of paragraph 3840.44(b)(i).

## Accounting for Common Control Combinations Prospectively

- 9 The AcSB discussed the Committee's feedback and decided that the application question met the criteria in the Guidance Framework for further consideration as to whether guidance was needed.
- 10 In addition to the Committee's feedback, the AcSB discussed that the current language in paragraph 3840.44(b) could infer that determining an acquirer is required when carrying values are used to account for the transaction prospectively from the date that the combination occurred. The Board discussed that in some scenarios identifying an acquirer could be complex or onerous.
- 11 Therefore, the AcSB decided that authoritative guidance was needed to amend the language in the standard and decided to develop an exposure draft for a narrow-scope amendment. The Board discussed that the proposals would be narrow in scope to address this application question only. Although the Board is aware of other questions regarding the application of Section 3840, it decided to address this issue only as part of these proposals to provide guidance in a timely manner.
- 12 The AcSB considered various options to address the application question. One option considered was to account for the combined enterprise as a new enterprise from the transaction date. As a new enterprise, no comparative information would be reported in the period in which the combination occurs. The Board discussed that this would provide a single way of accounting for combinations under common control when the prospective option is selected. However, the Board reflected on the Committee's feedback that advised that in some cases there could be historical information of one combining entity that is useful to financial statement users and this option would not allow for that.
- 13 Another option considered was to provide a choice to either account for the combined entity as a new enterprise from the transaction date with no comparative information or account for the transaction as a continuation of one of the combining entities, which would allow comparative information of one of the combining entities in the period in which the combination occurs.
- 14 The AcSB discussed that this choice would allow private enterprises to account for the combination in a way that is useful to their financial statement users and therefore decided to propose this option.
- 15 The AcSB also discussed that when an enterprise chooses to account for the combination as a continuation of one of the combining entities, an enterprise would consider the information needs of users and present the comparatives of the combining entity that results in decision-useful information.

### Effects analysis

- 16 The effect of the proposed amendments is that an enterprise will have a choice to account for the combination in a way that is useful to its financial statement users when carrying amounts are used to account for a combination under common control.
- 17 When an enterprise chooses to account for a combination prospectively from the combination date these proposals allow it to be accounted for either as a new entity or as a continuation of one of the combining entities. With these proposals, the option to account for the combination retrospectively for the entire period in which the combination occurred and for all prior periods continues to be available.
- 18 The proposals also include amendments to the language in paragraph 3840.44(b) to remove references to the acquiring enterprise and other language that could infer that identifying an acquiring enterprise is required. The AcSB thinks these amendments will remove ambiguity that this exercise is required. To be consistent with the language proposed in paragraph 3840.44(b) and the existing wording in the Decision Tree in Section 3840, the Board has also proposed an amendment to paragraph 3840.44.

## Effective date and transition

- 19 Subject to feedback received on exposure, the AcSB plans to issue the narrow-scope amendments into Part II of the Handbook on September 1, 2025. The Board chose this date because the September 2023 Related Party Transactions amendments are effective for fiscal years beginning on or after January 1, 2025. Therefore, the amendments will already be effective when the proposals in this Exposure Draft are issued. However, because most private enterprises only issue annual financial statements, issuing the proposed amendments before December 31, 2025, will allow entities to benefit from these proposals.
- 20 Determining an effective date is an important step in the AcSB's due process. The Board proposes an effective date of January 1, 2026, with earlier application permitted. Although the effective date of January 1, 2026 is shortly after the planned issuance date, the Board discussed that entities with business combinations under common control may want to apply the proposals as soon as they are available as they are not onerous and instead will clarify the application of the current guidance.
- 21 The AcSB proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied. The Board decided on prospective application because they do not expect the proposals to change how a combination has been accounted for by entities that have early adopted the Related Party Transactions amendments. In addition, the proposals impact the comparative period only in the year of a combination that may not be presented in the financial statements in the year these proposals are applied. Therefore, the Board discussed that there may not be a benefit to requiring retrospective or a modified retrospective application. Instead, prospective application would reduce complexity on initial application of the amendments.



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