

**NEPAL ACCOUNTING STANDARDS ON
BUSINESS COMBINATIONS**

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Nepal Accounting Standard 21 *Business Combinations* (NAS 21) is set out in paragraphs 1-80 and Appendices A - B. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for Nepal Accounting Standards. NAS 21 shall be read in the context of its objective, the *Preface to Nepal Accounting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. NAS 02 *Accounting Policies, Changes in Accounting Estimates & Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this NAS is to specify the financial reporting by an entity when it undertakes a *business combination*. In particular, it specifies that all business combinations shall be accounted for by applying the purchase method. Therefore, the acquirer recognises the acquiree's identifiable assets, liabilities and *contingent liabilities* at their *fair values* at the *acquisition date*, and also recognises *goodwill*, which is subsequently tested for impairment rather than amortised.

Scope

2. Except as described in paragraph 3, entities shall apply this NAS when accounting for business combinations.
3. This NAS does not apply to:
 - (a) business combinations in which separate entities or businesses are brought together to form a joint venture.
 - (b) business combinations involving entities or businesses under common control.
 - (c) business combinations involving two or more mutual entities.
 - (d) business combinations in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest (for example, combinations in which separate entities are brought together by contract alone to form a dual listed corporation).
4. This Standard applies to all Companies including Public Sector Business Entities.

Identifying a business combination

5. A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains *control* of one or more other businesses, the acquiree. If an entity obtains control of one or more other entities that are not businesses, the bringing together of those entities is not a business

combination. When an entity acquires a group of assets or net assets that does not constitute a business, it shall allocate the cost of the group between the individual identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition.

6. A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase by an entity of the equity of another entity, the purchase of all the net assets of another entity, the assumption of the liabilities of another entity, or the purchase of some of the net assets of another entity that together form one or more businesses. It may be effected by the issue of equity instruments, the transfer of cash, cash equivalents or other assets, or a combination thereof. The transaction may be between the shareholders of the combining entities or between one entity and the shareholders of another entity. It may involve the establishment of a new entity to control the combining entities or net assets transferred, or the restructuring of one or more of the combining entities.
7. A business combination may result in a parent-subsidary relationship in which the acquirer is the *parent* and the acquiree a *subsidiary* of the acquirer. In such circumstances, the acquirer applies this NAS in its consolidated financial statements. It includes its interest in the acquiree in any separate financial statements it issues as an investment in a subsidiary.
8. A business combination may involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the equity of the other entity. Such a combination does not result in a parent-subsidary relationship.
9. Included within the definition of a business combination, and therefore the scope of this NAS, are business combinations in which one entity obtains control of another entity but for which the date of obtaining control (i.e. the acquisition date) does not coincide with the date or dates of acquiring an ownership interest (i.e. the *date or dates of exchange*). This situation may arise, for example, when an investee enters into share buy-back

arrangements with some of its investors and, as a result, control of the investee changes.

10. This NAS does not specify the accounting by venturers for interests in joint ventures.

Business combinations involving entities under common control

11. 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.
12. 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 this NAS 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.
13. 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 NASs. 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.
14. The extent of *minority interests* 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 is not relevant to determining whether a combination involves entities under common control.

Method of accounting

- 15. All business combinations shall be accounted for by applying the purchase method.**
16. The purchase method views a business combination from the perspective of the combining entity that is identified as the acquirer. The acquirer purchases net assets and recognises the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognised by the acquiree. The measurement of the acquirer's assets and liabilities is not affected by the transaction, nor are any additional assets or liabilities of the acquirer recognised as a result of the transaction, because they are not the subjects of the transaction.

Application of the purchase method

17. Applying the purchase method involves the following steps:
 - (a) identifying an acquirer;
 - (b) measuring the cost of the business combination; and
 - (c) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

Identifying the acquirer

- 18. An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses.**
19. Because the purchase method views a business combination from the acquirer's perspective, it assumes that one of the parties to the transaction can be identified as the acquirer.
20. Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. A combining entity shall be presumed to have obtained control of another combining entity when it acquires more than one-half of that other entity's voting rights, unless it can be demonstrated that such ownership does not constitute control. Even if one of the combining entities does not acquire more than one-half of the

voting rights of another combining entity, it might have obtained control of that other entity if, as a result of the combination, it obtains:

- (a) power over more than one-half of the voting rights of the other entity by virtue of an agreement with other investors; or
 - (b) power to govern the financial and operating policies of the other entity under a statute or an agreement; or
 - (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the other entity; or
 - (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other entity.
21. Although sometimes it may be difficult to identify an acquirer, there are usually indications that one exists. For example:
- (a) if the fair value of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer;
 - (b) if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer; and
 - (c) if the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able so to dominate is likely to be the acquirer.
22. In a business combination effected through an exchange of equity interests, the entity that issues the equity interests is normally the acquirer. However, all pertinent facts and circumstances shall be considered to determine which of the combining entities has the power to govern the financial and operating policies of the other entity (or entities) so as to obtain benefits from its (or their)

activities. In some business combinations, commonly referred to as reverse acquisitions, the acquirer is the entity whose equity interests have been acquired and the issuing entity is the acquiree. This might be the case when, for example, a private entity arranges to have itself ‘acquired’ by a smaller public entity as a means of obtaining a stock exchange listing. Although legally the issuing public entity is regarded as the parent and the private entity is regarded as the subsidiary, the legal subsidiary is the acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities. Commonly the acquirer is the larger entity; however, the facts and circumstances surrounding a combination sometimes indicate that a smaller entity acquires a larger entity. Guidance on the accounting for reverse acquisitions is provided in paragraphs B1–B15 of Appendix B.

23. When a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination shall be identified as the acquirer on the basis of the evidence available.
24. Similarly, when a business combination involves more than two combining entities, one of the combining entities that existed before the combination shall be identified as the acquirer on the basis of the evidence available. Determining the acquirer in such cases shall include a consideration of, amongst other things, which of the combining entities initiated the combination and whether the assets or revenues of one of the combining entities significantly exceed those of the others.

Cost of a business combination

25. **The acquirer shall measure the cost of a business combination as the aggregate of:**
 - (a) **the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus**
 - (b) **any costs directly attributable to the business combination.**

26. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date. However, a business combination may involve more than one exchange transaction, for example when it is achieved in stages by successive share purchases. When this occurs:
- (a) the cost of the combination is the aggregate cost of the individual transactions; and
 - (b) the date of exchange is the date of each exchange transaction (i.e. the date that each individual investment is recognised in the financial statements of the acquirer), whereas the acquisition date is the date on which the acquirer obtains control of the acquiree.
27. Assets given and liabilities incurred or assumed by the acquirer in exchange for control of the acquiree are required by paragraph 25 to be measured at their fair values at the date of exchange. Therefore, when settlement of all or any part of the cost of a business combination is deferred, the fair value of that deferred component shall be determined by discounting the amounts payable to their present value at the date of exchange, taking into account any premium or discount likely to be incurred in settlement.
28. The published price at the date of exchange of a quoted equity instrument provides the best evidence of the instrument's fair value and shall be used, except in rare circumstances. Other evidence and valuation methods shall be considered only in the rare circumstances when the acquirer can demonstrate that the published price at the date of exchange is an unreliable indicator of fair value, and that the other evidence and valuation methods provide a more reliable measure of the equity instrument's fair value. The published price at the date of exchange is an unreliable indicator only when it has been affected by the thinness of the market. If the published price at the date of exchange is an unreliable indicator or if a published price does not exist for equity instruments issued by the acquirer, the fair value of those

instruments could, for example, be estimated by reference to their proportional interest in the fair value of the acquirer or by reference to the proportional interest in the fair value of the acquiree obtained, whichever is the more clearly evident. The fair value at the date of exchange of monetary assets given to equity holders of the acquiree as an alternative to equity instruments may also provide evidence of the total fair value given by the acquirer in exchange for control of the acquiree. In any event, all aspects of the combination, including significant factors influencing the negotiations, shall be considered.

29. The cost of a business combination includes liabilities incurred or assumed by the acquirer in exchange for control of the acquiree. Future losses or other costs expected to be incurred as a result of a combination are not liabilities incurred or assumed by the acquirer in exchange for control of the acquiree, and are not, therefore, included as part of the cost of the combination.
30. The cost of a business combination includes any costs directly attributable to the combination, such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination. General administrative costs, including the costs of maintaining an acquisitions department, and other costs that cannot be directly attributed to the particular combination being accounted for are not included in the cost of the combination: they are recognised as an expense when incurred.
31. The costs of arranging and issuing financial liabilities are an integral part of the liability issue transaction, even when the liabilities are issued to effect a business combination, rather than costs directly attributable to the combination. Therefore, entities shall not include such costs in the cost of a business combination. Such costs shall be included in the initial measurement of the liability.
32. Similarly, the costs of issuing equity instruments are an integral part of the equity issue transaction, even when the equity instruments are issued to effect a business combination, rather than costs directly attributable to the combination. Therefore, entities shall not include such costs in the cost of a business combination. Such costs reduce the proceeds from the equity issue.

Adjustments to the cost of a business combination contingent on future events

- 33. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is *probable* and can be measured reliably.**
34. A business combination agreement may allow for adjustments to the cost of the combination that are contingent on one or more future events. The adjustment might, for example, be contingent on a specified level of profit being maintained or achieved in future periods, or on the market price of the instruments issued being maintained. It is usually possible to estimate the amount of any such adjustment at the time of initially accounting for the combination without impairing the reliability of the information, even though some uncertainty exists. If the future events do not occur or the estimate needs to be revised, the cost of the business combination shall be adjusted accordingly.
35. However, when a business combination agreement provides for such an adjustment, that adjustment is not included in the cost of the combination at the time of initially accounting for the combination if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.
36. In some circumstances, the acquirer may be required to make a subsequent payment to the seller as compensation for a reduction in the value of the assets given, equity instruments issued or liabilities incurred or assumed by the acquirer in exchange for control of the acquiree. This is the case, for example, when the acquirer guarantees the market price of equity or debt instruments issued as part of the cost of the business combination and is required to issue additional equity or debt instruments to restore the originally determined cost. In such cases, no increase in the cost of the business combination is recognised. In the case of

equity instruments, the fair value of the additional payment is offset by an equal reduction in the value attributed to the instruments initially issued. In the case of debt instruments, the additional payment is regarded as a reduction in the premium or an increase in the discount on the initial issue.

Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed

37. The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in paragraph 38 at their fair values at that date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *NAS 20 Non-current Assets Held for Sale and Discontinued Operations*, which shall be recognised at fair value less costs to sell. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised shall be accounted for in accordance with paragraphs 52-58.
38. The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:
- (a) in the case of an asset other than an *intangible* asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
 - (b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
 - (c) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

39. The acquirer's income statement shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's income and expenses based on the cost of the business combination to the acquirer. For example, depreciation expense included after the acquisition date in the acquirer's income statement that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, i.e. their cost to the acquirer.
40. Application of the purchase method starts from the acquisition date, which is the date on which the acquirer effectively obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalised at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.
41. Because the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in paragraph 38 at their fair values at the acquisition date, any minority interest in the acquiree is stated at the minority's proportion of the net fair value of those items. Paragraphs B16 and B17 of Appendix B provide guidance on determining the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities for the purpose of allocating the cost of a business combination.

Acquiree's identifiable assets and liabilities

42. In accordance with paragraph 37, the acquirer recognises separately as part of allocating the cost of the combination only the identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the acquisition date and satisfy the recognition criteria in paragraph 38. Therefore:
 - (a) the acquirer shall recognise liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only when the acquiree has, at

the acquisition date, an existing liability for restructuring recognised in accordance with NAS 12 *Provisions, Contingent Liabilities and Contingent Assets*; and

- (b) the acquirer, when allocating the cost of the combination, shall not recognise liabilities for future losses or other costs expected to be incurred as a result of the business combination.
43. A payment that an entity is contractually required to make, for example, to its employees or suppliers in the event that it is acquired in a business combination is a present obligation of the entity that is regarded as a contingent liability until it becomes probable that a business combination will take place. The contractual obligation is recognised as a liability by that entity in accordance with NAS 12 when a business combination becomes probable and the liability can be measured reliably. Therefore, when the business combination is effected, that liability of the acquiree is recognised by the acquirer as part of allocating the cost of the combination.
44. However, an acquiree's restructuring plan whose execution is conditional upon its being acquired in a business combination is not, immediately before the business combination, a present obligation of the acquiree. Nor is it a contingent liability of the acquiree immediately before the combination because it is not a possible obligation arising from a past event whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the acquiree. Therefore, an acquirer shall not recognise a liability for such restructuring plans as part of allocating the cost of the combination.
45. The identifiable assets and liabilities that are recognised in accordance with paragraph 37 include all of the acquiree's assets and liabilities that the acquirer purchases or assumes, including all of its financial assets and financial liabilities. They might also include assets and liabilities not previously recognised in the acquiree's financial statements, e.g. because they did not qualify for recognition before the acquisition. For example, a tax benefit

arising from the acquiree's tax losses that was not recognised by the acquiree before the business combination qualifies for recognition as an identifiable asset in accordance with paragraph 37 if it is probable that the acquirer will have future taxable profits against which the unrecognised tax benefit can be applied.

Acquiree's intangible assets

46. In accordance with paragraph 38, the acquirer recognises separately an intangible asset of the acquiree at the acquisition date only if it meets the definition of an intangible asset NAS 27 *Intangible Assets* and its fair value can be measured reliably. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset and its fair value can be measured reliably. NAS 27 provides guidance on determining whether the fair value of an intangible asset acquired in a business combination can be measured reliably.
47. A non-monetary asset without physical substance must be identifiable to meet the definition of an intangible asset. In accordance with NAS 27, an asset meets the identifiability criterion in the definition of an intangible asset only if it:
 - (a) is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
 - (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Acquiree's contingent liabilities

48. Paragraph 38 specifies that the acquirer recognises separately a contingent liability of the acquiree as part of allocating the cost of a business combination only if its fair value can be measured reliably. If its fair value cannot be measured reliably:
 - (a) there is a resulting effect on the amount recognised as goodwill or accounted for in accordance with paragraph 57; and

- (b) the acquirer shall disclose the information about that contingent liability required to be disclosed by NAS 12.

Paragraph B16 (l) of Appendix B provides guidance on determining the fair value of a contingent liability.

- 49. After their initial recognition, the acquirer shall measure contingent liabilities that are recognised separately in accordance with paragraph 37 at the higher of:**
 - (a) the amount that would be recognised in accordance with NAS 12, and**
 - (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with NAS 07 Revenue.**
- 50. The requirement in paragraph 49 does not apply to contracts accounted for Financial Instruments. However, loan commitments excluded from the scope of Financial Instruments that are not commitments to provide loans at below-market interest rates are accounted for as contingent liabilities of the acquiree if, at the acquisition date, it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or if the amount of the obligation cannot be measured with sufficient reliability. Such a loan commitment is, in accordance with paragraph 38, recognised separately as part of allocating the cost of a combination only if its fair value can be measured reliably.
- 51. Contingent liabilities recognised separately as part of allocating the cost of a business combination are excluded from the scope of NAS 12. However, the acquirer shall disclose for those contingent liabilities the information required to be disclosed by NAS 12 for each class of provision.

Goodwill

- 52. The acquirer shall, at the acquisition date:**
 - (a) recognise goodwill acquired in a business combination as an asset; and**

- (b) initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 37.**
53. Goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised.
54. To the extent that the acquiree's identifiable assets, liabilities or contingent liabilities do not satisfy the criteria in paragraph 38 for separate recognition at the acquisition date, there is a resulting effect on the amount recognised as goodwill (or accounted for in accordance with paragraph 57). This is because goodwill is measured as the residual cost of the business combination after recognising the acquiree's identifiable assets, liabilities and contingent liabilities.
- 55. After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less any accumulated impairment losses.**
56. Goodwill acquired in a business combination shall not be amortised. Instead, the acquirer shall test it for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with NAS 18 *Impairment of Assets*.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost

- 57. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 37 exceeds the cost of the business combination, the acquirer shall:**
- (a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent**

liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in profit or loss any excess remaining after that reassessment.

58. A gain recognised in accordance with paragraph 57 could comprise one or more of the following components:
- (a) errors in measuring the fair value of either the cost of the combination or the acquiree's identifiable assets, liabilities or contingent liabilities. Possible future costs arising in respect of the acquiree that have not been reflected correctly in the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities are a potential cause of such errors.
 - (b) a requirement in an accounting standard to measure identifiable net assets acquired at an amount that is not fair value, but is treated as though it is fair value for the purpose of allocating the cost of the combination. For example, the guidance in Appendix B on determining the fair values of the acquiree's identifiable assets and liabilities requires the amount assigned to tax assets and liabilities to be undiscounted.
 - (c) a bargain purchase.

Business combination achieved in stages

59. A business combination may involve more than one exchange transaction, for example when it occurs in stages by successive share purchases. If so, each exchange transaction shall be treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the acquirer's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step.
60. When a business combination involves more than one exchange transaction, the fair values of the acquiree's identifiable assets,

liabilities and contingent liabilities may be different at the date of each exchange transaction. Because:

- (a) the acquiree's identifiable assets, liabilities and contingent liabilities are notionally restated to their fair values at the date of each exchange transaction to determine the amount of any goodwill associated with each transaction; and
 - (b) the acquiree's identifiable assets, liabilities and contingent liabilities must then be recognised by the acquirer at their fair values at the acquisition date, any adjustment to those fair values relating to previously held interests of the acquirer is a revaluation and shall be accounted for as such. However, because this revaluation arises on the initial recognition by the acquirer of the acquiree's assets, liabilities and contingent liabilities, it does not signify that the acquirer has elected to apply an accounting policy of revaluing those items after initial recognition in accordance with, for example, NAS 06 *Property, Plant and Equipment*.
61. Before qualifying as a business combination, a transaction may qualify as an investment in an associate and be accounted for in accordance with NAS 25 *Investments in Associates* using the equity method. If so, the fair values of the investee's identifiable net assets at the date of each earlier exchange transaction will have been determined previously in applying the equity method to the investment.

Initial accounting determined provisionally

62. The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination.
63. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall

recognise any adjustments to those provisional values as a result of completing the initial accounting:

- (a) within twelve months of the acquisition date; and
- (b) from the acquisition date. Therefore:
 - (i) the carrying amount of an identifiable asset, liability or contingent liability that is recognised or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognised from that date.
 - (ii) goodwill or any gain recognised in accordance with paragraph 57 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) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date. This includes any additional depreciation, amortisation or other profit or loss effect recognised as a result of completing the initial accounting.

Adjustments after the initial accounting is complete

- 64. Except as outlined in paragraphs 34, 35 and 66, adjustments to the initial accounting for a business combination after that initial accounting is complete shall be recognised only to correct an error in accordance with *NAS 02 Accounting Policies, changes in Accounting Estimates & Errors*. Adjustments to the initial accounting for a business combination after that accounting is complete shall not be recognised for the effect of changes in estimates. In accordance with NAS 02, the effect of a change in estimates shall be recognised in the current and future periods.
- 65. NAS 02 requires an entity to account for an error correction retrospectively, and to present financial statements as if the error

had never occurred by restating the comparative information for the prior period(s) in which the error occurred. Therefore, the carrying amount of an identifiable asset, liability or contingent liability of the acquiree that is recognised or adjusted as a result of an error correction shall be calculated as if its fair value or adjusted fair value at the acquisition date had been recognised from that date. Goodwill or any gain recognised in a prior period in accordance with paragraph 57 shall be adjusted retrospectively by an amount equal to the fair value at the acquisition date (or the adjustment to the fair value at the acquisition date) of the identifiable asset, liability or contingent liability being recognised (or adjusted).

Recognition of deferred tax assets after the initial accounting is complete

66. If the potential benefit of the acquiree's income tax loss carry-forwards or other deferred tax assets did not satisfy the criteria in paragraph 38 for separate recognition when a business combination is initially accounted for but is subsequently realised, the acquirer shall recognise that benefit as income in accordance with NAS 09 *Income Taxes*. In addition, the acquirer shall:
- (a) reduce the carrying amount of goodwill to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date; and
 - (b) recognise the reduction in the carrying amount of the goodwill as an expense.

However, this procedure shall not result in the creation of an excess as described in paragraph 57, nor shall it increase the amount of any gain previously recognised in accordance with paragraph 57.

Disclosure

67. **An acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that were effected:**
- (a) during the period.

(b) after the balance sheet date but before the financial statements are authorised for issue.

68. To give effect to the principle in paragraph 67 (a), the acquirer shall disclose the following information for each business combination that was effected during the period:
- (a) the names and descriptions of the combining entities or businesses.
 - (b) the acquisition date.
 - (c) the percentage of voting equity instruments acquired.
 - (d) the cost of the combination and a description of the components of that cost, including any costs directly attributable to the combination. When equity instruments are issued or issuable as part of the cost, the following shall also be disclosed:
 - (i) the number of equity instruments issued or issuable; and
 - (ii) the fair value of those instruments and the basis for determining that fair value. If a published price does not exist for the instruments at the date of exchange, the significant assumptions used to determine fair value shall be disclosed. If a published price exists at the date of exchange but was not used as the basis for determining the cost of the combination, that fact shall be disclosed together with: the reasons the published price was not used; the method and significant assumptions used to attribute a value to the equity instruments; and the aggregate amount of the difference between the value attributed to, and the published price of, the equity instruments.
 - (e) details of any operations the entity has decided to dispose of as a result of the combination.
 - (f) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, and, unless disclosure would be impracticable, the carrying

amounts of each of those classes, determined in accordance with NASs, immediately before the combination. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

- (g) the amount of any excess recognised in profit or loss in accordance with paragraph 57, 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 57.
 - (i) the amount of the acquiree’s profit or loss since the acquisition date included in the acquirer’s profit or loss for the period, unless disclosure would be impracticable. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.
69. The information required to be disclosed by paragraph 68 shall be disclosed in aggregate for business combinations effected during the reporting period that are individually immaterial.
70. If the initial accounting for a business combination that was effected during the period was determined only provisionally as described in paragraph 63, that fact shall also be disclosed together with an explanation of why this is the case.
71. To give effect to the principle in paragraph 67 (a), the acquirer shall disclose the following information, unless such disclosure would be impracticable:
- (a) the revenue of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of that period.

- (b) the profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period.

If disclosure of this information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

- 72. To give effect to the principle in paragraph 67 (b), the acquirer shall disclose the information required by paragraph 68 for each business combination effected after the balance sheet date but before the financial statements are authorised for issue, unless such disclosure would be impracticable. If disclosure of any of that information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.
- 73. An acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current or in previous periods.**
- 74. To give effect to the principle in paragraph 73, the acquirer shall disclose the following information:
 - (a) the amount and an explanation of any gain or loss recognised in the current period that:
 - (i) relates to the identifiable assets acquired or liabilities or contingent liabilities assumed in a business combination that was effected in the current or a previous period; and
 - (ii) is of such size, nature or incidence that disclosure is relevant to an understanding of the combined entity's financial performance.
 - (b) if the initial accounting for a business combination that was effected in the immediately preceding period was determined only provisionally at the end of that period, the amounts and

explanations of the adjustments to the provisional values recognised during the current period.

- (c) the information about error corrections required to be disclosed by NAS 02 for any of the acquiree's identifiable assets, liabilities or contingent liabilities, or changes in the values assigned to those items, that the acquirer recognises during the current period in accordance with paragraphs 64 and 65.

75. An entity shall disclose information that enables users of its financial statements to evaluate changes in the carrying amount of goodwill during the period.

76. To give effect to the principle in paragraph 75, the entity shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the period, showing separately:
- (a) the gross amount and accumulated impairment losses at the beginning of the period;
 - (b) additional goodwill recognised during the period except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with NAS 20;
 - (c) adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraph 66;
 - (d) goodwill included in a disposal group classified as held for sale in accordance with NAS 20 and goodwill derecognised during the period without having previously been included in a disposal group classified as held for sale;
 - (e) impairment losses recognised during the period in accordance with NAS 18;
 - (f) net exchange differences arising during the period in accordance with NAS 11 *The Effects of Changes in Foreign Exchange Rates*;

- (g) any other changes in the carrying amount during the period;
and
 - (h) the gross amount and accumulated impairment losses at the end of the period.
77. The entity discloses information about the recoverable amount and impairment of goodwill in accordance with NAS 18 in addition to the information required to be disclosed by paragraph 76(e).
78. If in any situation the information required to be disclosed by this NAS does not satisfy the objectives set out in paragraphs 67, 73 and 75, the entity shall disclose such additional information as is necessary to meet those objectives.

Compliance with International Accounting Standards

79. Compliance with this NAS ensures compliance in all material respects with IFRS 3 Business Combinations.

Effective date

80. This Nepal Accounting Standard becomes operative for financial statements covering the periods beginning on or after

acquisition date The date on which the acquirer effectively obtains control of the acquiree.

agreement date The date that a substantive agreement between the combining parties is reached and, in the case of publicly listed entities, announced to the public. In the case of a hostile takeover, the earliest date that a substantive agreement between the combining parties is reached is the date that a sufficient number of the acquiree's owners have accepted the acquirer's offer for the acquirer to obtain control of the acquiree.

business An integrated set of activities and assets conducted and managed for the purpose of providing:
(a) a return to investors; or
(b) lower costs or other economic benefits directly and proportionately to policyholders or participants.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If **goodwill** is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.

business combination The bringing together of separate entities or **businesses** into one **reporting entity**.

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.

contingent Contingent liability has the meaning given to it in

liability	<p>NAS 12 <i>Provisions, Contingent Liabilities and Contingent Assets</i>, i.e.:</p> <ul style="list-style-type: none"> (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: <ul style="list-style-type: none"> (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.
control	The power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities.
date of exchange	When a business combination is achieved in a single exchange transaction, the date of exchange is the acquisition date . When a business combination involves more than one exchange transaction, for example when it is achieved in stages by successive share purchases, the date of exchange is the date that each individual investment is recognised in the financial statements of the acquirer.
fair value goodwill	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Future economic benefits arising from assets that are not capable of being individually identified and separately recognised.
intangible asset	Intangible asset has the meaning given to it in NAS 27 <i>Intangible Assets</i> , i.e. an identifiable non-monetary asset without physical substance.
joint venture	Joint venture is a contractual arrangement whereby

two or more parties undertake an economic activity that is subject to joint control.

minority interest That portion of the profit or loss and net assets of a **subsidiary** attributable to equity interests that are not owned, directly or indirectly through **subsidiaries**, by the **parent**.

mutual entity An entity other than an investor-owned entity, such as a mutual insurance company or a mutual cooperative entity, that provides lower costs or other economic benefits directly and proportionately to its policyholders or participants.

parent An entity that has one or more **subsidiaries**.

probable More likely than not.

reporting entity An entity for which there are users who rely on the entity's general purpose financial statements for information that will be useful to them for making decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a **parent** and all of its **subsidiaries**.

subsidiary An entity, including an unincorporated entity such as a partnership, that is **controlled** by another entity (known as the **parent**).

01 Shrawan 2064 corresponding to 17 July 2007.

Appendix A

Defined terms

This appendix is an integral part of the NAS.

Appendix B

Application supplement

This appendix is an integral part of the NAS.

Reverse acquisitions

- B1 As noted in paragraph 22, in some business combinations, commonly referred to as reverse acquisitions, the acquirer is the entity whose equity interests have been acquired and the issuing entity is the acquiree. This might be the case when, for example, a private entity arranges to have itself ‘acquired’ by a smaller public entity as a means of obtaining a stock exchange listing. Although legally the issuing public entity is regarded as the parent and the private entity is regarded as the subsidiary, the legal subsidiary is the acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.
- B2 An entity shall apply the guidance in paragraphs B3–B15 when accounting for a reverse acquisition.
- B3 Reverse acquisition accounting determines the allocation of the cost of the business combination as at the acquisition date and does not apply to transactions after the combination.

Cost of the business combination

- B4 When equity instruments are issued as part of the cost of the business combination, paragraph 25 requires the cost of the combination to include the fair value of those equity instruments at the date of exchange. Paragraph 28 notes that, in the absence of a reliable published price, the fair value of the equity instruments can be estimated by reference to the fair value of the acquirer or the fair value of the acquiree, whichever is more clearly evident.

- B5 In a reverse acquisition, the cost of the business combination is deemed to have been incurred by the legal subsidiary (i.e. the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (i.e. the acquiree for accounting purposes). If the published price of the equity instruments of the legal subsidiary is used to determine the cost of the combination, a calculation shall be made to determine the number of equity instruments the legal subsidiary would have had to issue to provide the same percentage ownership interest of the combined entity to the owners of the legal parent as they have in the combined entity as a result of the reverse acquisition. The fair value of the number of equity instruments so calculated shall be used as the cost of the combination.
- B6 If the fair value of the equity instruments of the legal subsidiary is not otherwise clearly evident, the total fair value of all the issued equity instruments of the legal parent before the business combination shall be used as the basis for determining the cost of the combination.

Preparation and presentation of consolidated financial statements

- B7 Consolidated financial statements prepared following a reverse acquisition shall be issued under the name of the legal parent, but described in the notes as a continuation of the financial statements of the legal subsidiary (ie the acquirer for accounting purposes). Because such consolidated financial statements represent a continuation of the financial statements of the legal subsidiary:
- (a) the assets and liabilities of the legal subsidiary shall be recognised and measured in those consolidated financial statements at their pre-combination carrying amounts.
 - (b) the retained earnings and other equity balances recognised in those consolidated financial statements shall be the retained earnings and other equity balances of the legal subsidiary immediately before the business combination.
 - (c) the amount recognised as issued equity instruments in those consolidated financial statements shall be determined by

adding to the issued equity of the legal subsidiary immediately before the business combination the cost of the combination determined as described in paragraphs B4–B6. However, the equity structure appearing in those consolidated financial statements (ie the number and type of equity instruments issued) shall reflect the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the combination.

(d) comparative information presented in those consolidated financial statements shall be that of the legal subsidiary.

B8 Reverse acquisition accounting applies only in the consolidated financial statements. Therefore, in the legal parent’s separate financial statements, if any, the investment in the legal subsidiary is accounted for in an investor’s separate financial statements.

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 38 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 52-56. 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 57.

Minority interest

B10 In some reverse acquisitions, some of the owners of the legal subsidiary do not exchange their equity instruments for equity instruments of the legal parent. Although the entity in which those owners hold equity instruments (the legal subsidiary) acquired another entity (the legal parent), those owners shall be treated as a minority interest in the consolidated financial statements prepared after the reverse acquisition. This is because the owners

of the legal subsidiary that do not exchange their equity instruments for equity instruments of the legal parent have an interest only in the results and net assets of the legal subsidiary, and not in the results and net assets of the combined entity. Conversely, all of the owners of the legal parent, notwithstanding that the legal parent is regarded as the acquiree, have an interest in the results and net assets of the combined entity.

- B11 Because the assets and liabilities of the legal subsidiary are recognised and measured in the consolidated financial statements at their pre-combination carrying amounts, the minority interest shall reflect the minority shareholders' proportionate interest in the pre-combination carrying amounts of the legal subsidiary's net assets.

Earnings per share

- B12 As noted in paragraph B7(c), the equity structure appearing in the consolidated financial statements prepared following a reverse acquisition reflects the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the business combination.
- B13 For the purpose of calculating the weighted average number of ordinary shares outstanding (the denominator) during the period in which the reverse acquisition occurs:
- (a) the number of ordinary shares outstanding from the beginning of that period to the acquisition date shall be deemed to be the number of ordinary shares issued by the legal parent to the owners of the legal subsidiary; and
 - (b) the number of ordinary shares outstanding from the acquisition date to the end of that period shall be the actual number of ordinary shares of the legal parent outstanding during that period.
- B14 The basic earnings per share disclosed for each comparative period before the acquisition date that is presented in the consolidated financial statements following a reverse acquisition shall be calculated by dividing the profit or loss of the legal subsidiary

attributable to ordinary shareholders in each of those periods by the number of ordinary shares issued by the legal parent to the owners of the legal subsidiary in the reverse acquisition.

- B15 The calculations outlined in paragraphs B13 and B14 assume that there were no changes in the number of the legal subsidiary's issued ordinary shares during the comparative periods and during the period from the beginning of the period in which the reverse acquisition occurred to the acquisition date. The calculation of earnings per share shall be appropriately adjusted to take into account the effect of a change in the number of the legal subsidiary's issued ordinary shares during those periods.

Allocating the cost of a business combination

- B16 This NAS requires an acquirer to recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the relevant recognition criteria at their fair values at the acquisition date. For the purpose of allocating the cost of a business combination, the acquirer shall treat the following measures as fair values:

- (a) for financial instruments traded in an active market the acquirer shall use current market values.
- (b) for financial instruments not traded in an active market the acquirer shall use estimated values that take into consideration features such as price-earnings ratios, dividend yields and expected growth rates of comparable instruments of entities with similar characteristics.
- (c) for receivables, beneficial contracts and other identifiable assets the acquirer shall use the present values of the amounts to be received, determined at appropriate current interest rates, less allowances for uncollectibility and collection costs, if necessary. However, discounting is not required for short-term receivables, beneficial contracts and other identifiable assets when the difference between the nominal and discounted amounts is not material.
- (d) for inventories of:

- (i) finished goods and merchandise the acquirer shall use selling prices less the sum of (1) the costs of disposal and (2) a reasonable profit allowance for the selling effort of the acquirer based on profit for similar finished goods and merchandise;
 - (ii) work in progress the acquirer shall use selling prices of finished goods less the sum of (1) costs to complete, (2) costs of disposal and (3) a reasonable profit allowance for the completing and selling effort based on profit for similar finished goods; and
 - (iii) raw materials the acquirer shall use current replacement costs.
- (e) for land and buildings the acquirer shall use market values.
- (f) for plant and equipment the acquirer shall use market values, normally determined by appraisal. If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment and the item is rarely sold, except as part of a continuing business, an acquirer may need to estimate fair value using an income or a depreciated replacement cost approach.
- (g) for intangible assets the acquirer shall determine fair value:
- (i) by reference to an active market as defined in NAS 27 *Intangible Assets*; or
 - (ii) if no active market exists, on a basis that reflects the amounts the acquirer would have paid for the assets in arm's length transactions between knowledgeable willing parties, based on the best information available (see NAS 27 for further guidance on determining the fair values of intangible assets acquired in business combinations).
- (h) for net employee benefit assets or liabilities for defined benefit plans the acquirer shall use the present value of the defined benefit obligation less the fair value of any plan assets. However, an asset is recognised only to the extent that it is probable it will be available to the acquirer in the form of refunds from the plan or a reduction in future contributions.

in respect of profit or loss in accordance with NAS 09 *Income Taxes*, assessed from the perspective of the combined entity. The tax asset or liability is determined after allowing for the tax effect of restating identifiable assets, liabilities and contingent liabilities to their fair values and is not discounted.

- (j) for accounts and notes payable, long-term debt, liabilities, accruals and other claims payable the acquirer shall use the present values of amounts to be disbursed in settling the liabilities determined at appropriate current interest rates. However, discounting is not required for short-term liabilities when the difference between the nominal and discounted amounts is not material.
- (k) for onerous contracts and other identifiable liabilities of the acquiree the acquirer shall use the present values of amounts to be disbursed in settling the obligations determined at appropriate current interest rates.
- (l) for contingent liabilities of the acquiree the acquirer shall use the amounts that a third party would charge to assume those contingent liabilities. Such an amount shall reflect all expectations about possible cash flows and not the single most likely or the expected maximum or minimum cash flow.

B17 Some of the above guidance requires fair values to be estimated using present value techniques. If the guidance for a particular item does not refer to the use of present value techniques, such techniques may be used in estimating the fair value of that item.