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ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS BRIEFING – SECTION 4449

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Introduction and Background on the Project

In June 2018, the Accounting Standards Board (AcSB) approved a project to explore the accounting for the initial measurement of a combination between not-for-profit organizations (NFPOs) by applying the guidance in Part III of the *CPA Canada Handbook – Accounting (Handbook),* Accounting Standards for Not-for-Profit Organizations (ASNPO). Stakeholders, including members of the AcSB's Not-for-Profit Advisory Committee (Advisory Committee), had informed the AcSB that due to increased competitiveness for funding and pressures to reduce costs, NFPOs were increasingly considering organizational changes and collaborations. These considerations were increasing the number of combinations occurring in this sector in recent years.

Prior to the AcSB's project on combinations, paragraph .01A of Section 4450, *Reporting Controlled and Related Entities by Not-for-Profit Organizations* in Part III of the *Handbook* indicated that a NFPO was not to apply Section 1582, *Business Combinations* in Part II of the *Handbook,* Accounting Standards for Private Enterprises (ASPE) to a combination between NFPOs or to the acquisition of a profit-oriented enterprise by a NFPO. This paragraph also indicated that until further guidance was issued that addressed combinations of, or acquisitions by, NFPOs, other sources of generally accepted accounting principles that specifically relate to such matters could be applied as described in Section 1101, *Generally Accepted Accounting Principles* in Part III of the *Handbook*.

As no guidance existed in the *Handbook* on how to account for a combination by a NFPO, diversity in practice emerged, including the use of different frameworks, multiple frameworks for the same transaction and guidance that was superseded. Most combinations were accounted for as mergers using guidance from various standards. The result was the application of differing measurement and disclosure requirements to communicate the details of a combination in the financial statements. The purpose of the AcSB's project was to create a standard that would establish criteria to distinguish a merger from an acquisition as well as to provide guidance on how to apply merger or acquisition accounting.

From November 2018 to January 2019, the AcSB developed criteria to determine whether a combination should be accounted for as a merger or an acquisition. These criteria were applied to different types of NFPO combinations and, in limited circumstances, to private enterprise combinations that exhibited characteristics similar to a NFPO combination. Based on this field testing, the AcSB determined that the proposed criteria could not be applied to such a wide range of combinations. Therefore, the AcSB limited the scope of its project to private NFPO combinations.

In January 2020, the AcSB issued its Exposure Draft, Combinations – Initial Measurement and Related Disclosures. In developing the proposals, the AcSB considered the feedback of its Advisory Committee, other private-sector NFPO stakeholders and participants in its field testing of the draft proposals. The AcSB received 10 comment letters and heard from

22 stakeholders at virtual roundtables from across Canada in response to its Exposure Draft. This feedback was considered when drafting the final standard on combinations. In March 2021, the AcSB released Section 4449, *Combinations by Not-for-Profit Organizations* into Part III of the *Handbook*.

This CPA Canada Briefing (*Briefing*) summarizes the accounting guidance included in Section 4449, including how the distinction between a merger and an acquisition is determined, the accounting guidance applicable to each and provides illustrative examples of how Section 4449 might be applied in certain fact patterns to augment the illustrative examples included in the standard. This *Briefing* also provides illustrative disclosures, describes the potential accounting and assurance impacts of Section 4449 and compares the accounting guidance in Section 4449 to the accounting guidance in Section 1582 in Part II of the *Handbook*.

Section 4449 applies prospectively to annual financial statements relating to fiscal years beginning on or after January 1, 2022, with earlier application permitted. An entity applies Section 4449 to new combinations entered into from the beginning of the fiscal year in which the standard is applied. For a NFPO that has a March 31 year end and has chosen to adopt the standard as of its effective date, for example, Section 4449 would be applied for the first time in its financial statements for the year ended March 31, 2023, and all the requirements of Section 4449 would be applied to combinations occurring on or after April 1, 2022.

Scope and Definitions

What are the definitions of a NFPO and a combination?

Before applying the guidance in Section 4449, it is important to understand the definitions of a NFPO and a combination as these definitions are integral to applying the scope of Section 4449 to a transaction or other event involving a NFPO.

NFPOs are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. NFPO members, contributors and other resource providers do not receive any financial return directly from the organization. The reference to “entities” does not imply only legal entities but can apply to any group of assets organized and operated for non-profit purposes. This contrasts to a single asset or a basket of assets not used cohesively to operate non-profit activities.

A combination is a transaction or other event involving NFPOs that is accounted for as a merger or an acquisition based on the criteria described below.

What types of transactions are within the scope of Section 4449?

Section 4449 provides the accounting requirements for the recognition and initial measurement of a combination and the related disclosures for financial statements of NFPOs. Section 4449 establishes principles and requirements for how:

a. In the case of a combination of two or more NFPOs accounted for as a merger, the reporting entity:[1] (i) recognizes, measures and presents in its financial statements the combined assets, liabilities and net assets of the merged entities; and (ii) determines what information to disclose to enable the financial statement users to evaluate the nature and financial effects of the merger; or

b. In the case of a combination of two or more NFPOs accounted for as an acquisition, the acquirer:[2] (i) recognizes and measures in its financial statements the identifiable assets acquired and the liabilities assumed; and (ii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the acquisition.

Subsequent to the combination, a NFPO applies Section 4450 in Part III of the *Handbook,* which establishes the standards for presentation and disclosure of controlled entities of a NFPO.

What types of transactions are not within the scope of Section 4449?

Section 4449 applies to a combination involving two or more NFPOs that are unrelated or related parties. It does not apply to:

a. The acquisition of a for-profit enterprise by a NFPO (see Section 1582);

b. A contribution of a for-profit enterprise to a NFPO (see Section 4410, *Contributions – Revenue Recognition* in Part III of the *Handbook* to measure assets contributed and Section 1582 to measure liabilities assumed and any goodwill, if applicable);

c. A contribution of cash or other assets, which do not constitute a NFPO, to a NFPO (see Section 4410); or

d. The formation of a joint venture (see Section 4450).

KEY CONCEPT

Section 4449 provides the accounting and disclosure requirements for combinations (mergers or acquisitions) between two or more unrelated or related NFPOs. The accounting and disclosure requirements for a NFPO acquiring a for-profit enterprise; a NFPO being contributed to a for-profit enterprise; the purchase of a group of assets that does not constitute a NFPO; and two NFPOs combining to form a joint venture are found elsewhere in the *Handbook*.

[1] In the case of a merger, the reporting entity is the combined not-for-profit organization that exists after the merger has occurred. In the case of an acquisition, the reporting entity is the acquirer inclusive of the acquiree.

[2] An acquirer is the not-for-profit organization that obtains control of the acquiree. An acquiree is the not-for-profit organization or organizations the acquirer obtains control of in a combination.

Distinguishing Between a Merger and an Acquisition

How is a merger distinguished from an acquisition?

Once a NFPO has determined a combination is within the scope of Section 4449, the next step is determining whether the combination is a merger or an acquisition since the accounting treatment for each is very different. The accounting treatment for a combination depends on the substance of the transaction and whether the transaction itself results in control[3] being exercised over the other organization. Ultimately, whether a combination is accounted for as a merger or an acquisition depends on the facts and circumstances of the transaction and whether the Five Criteria below have been met.

Except for combinations of NFPOs under common control, a combination is accounted for as a merger when all the following Five Criteria have been met:

a. No party to the combination is characterized as either the acquirer or acquiree, either by its own board or management or by that of the other party to the combination.

b. Those charged with governance of the predecessor organizations participate in determining the terms of the combination. This includes establishing the governance and management structures of the combined organization and in selecting management personnel.

c. Except for transaction costs, no significant consideration flows to a third party of the organizations combining to form the reporting entity. A merger generally is accomplished by combining all of the assets and liabilities of the combining entities into a single reporting entity without a transfer of cash or other assets to a third party of the reporting entity.

d. When entities combine, the reporting entity must encompass the purposes of each of the NFPOs subject to the combination at the combination date. While a combination may result in minor changes to the purpose of the combining NFPOs, a significant change would result in this criterion not being met.

e. At the combination date, there is no significant decline or planned significant decline in the client communities served by one or more but not all of the organizations that combined to form the reporting entity.

When two or more entities combine, and the combination meets all Five Criteria, the combination is accounted for as a merger in accordance with the guidance described below. If all Five Criteria have not been met, the combination is accounted for as an acquisition in accordance with the guidance described below.

[3] Control of a not-for-profit organization is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.

It is important to note that the above Criteria do not apply to a combination of NFPOs under common control. Such a combination is always accounted for as a merger. All other related party combinations, however, are subject to the Five Criteria above when determining whether such a related party combination is to be accounted for as a merger or an acquisition.

KEY CONCEPT

Except for combinations of NFPOs under common control, a combination is accounted for as a merger only when all Five Criteria described above have been met. All other combinations are accounted for as an acquisition, except for a combination of NFPOs under common control, which is always accounted for as a merger.

How does a NFPO apply each of the Five Criteria to differentiate a merger from an acquisition in a specific combination?

Each of the Five Criteria above will be discussed in more detail in the sections of this *Briefing* that follow. Examples will demonstrate how they might be applied in particular fact patterns.

When might one of the parties in a NFPO combination be characterized as the acquirer or acquiree?

The AcSB's research prior to the Exposure Draft suggested that it was rare to characterize either party in a NFPO combination as the acquirer or acquiree. In fact, it was viewed negatively by a NFPO to be characterized as the acquiree in a combination as this could adversely affect its reputation with its own stakeholders, such as donors. However, in circumstances where one party is characterized as the acquirer, this is a clear indication of an acquisition.

Whether either party in a NFPO combination is characterized as the acquirer or acquiree depends on the facts and circumstances of the combination. In evaluating whether Criterion (a) has been met, all forms of internal and external documents and communications are relevant and must be considered. Internal documents and communications may include board minutes and legal documents; external documents and communications may include public statements, press releases and website postings. If any such documents or communications characterize one party as the acquirer, Criterion (a) will not have been met and the combination must be accounted for as an acquisition.

How is it determined whether those charged with governance of the predecessor organizations participate in determining the terms of the combination?

For a combination to be accounted for as a merger, both parties must participate in determining the terms of the combination. A key outcome of that participation (and therefore of one of the ways Criterion (b) above can be said to have been met) is the establishment of the governance and management structures and the selection of management of the combined organization.

In some circumstances, the combining entities may be of very different sizes prior to the combination. While the intent of the combining entities and their size can be factors, it is ultimately the terms of the agreement and how those terms were generated that indicate whether the combination is a merger or an acquisition. For example, consider a large NFPO and a small NFPO that want to combine their operations. If, prior to the combination, mutually agreeable terms were established for the combined organization with participation from both parties, the transaction exhibits the elements of a merger. If, during the same negotiations, one party influences the decision-making process to the disadvantage of the other party, the other party can exit negotiations. Therefore, the transaction still exhibits the characteristics of a merger. However, if, during those negotiations, one of the NFPOs is disadvantaged in the negotiations due to factors outside its control and is thereby compelled to accept disadvantageous terms, the transaction exhibits the elements of an acquisition. In all these cases, the intent of the parties is revealed in the terms of the agreement and the agreement thus indicates whether the transaction is a merger or an acquisition.

In assessing Criterion (b) above, it is important to note that the procedural action of signing a combination agreement does not imply participation in the negotiations that led to that agreement. For example, in situations of financial duress or under legislation requiring one NFPO to combine with another, the parties may sign an agreement. However, the party under financial duress or the party compelled by legislation to combine has no ability to negotiate terms and therefore Criterion (b) would not be met. In addition, Criterion (b) requires the establishment of management and governance structures. This demonstrates participation from all parties to the combination, which would not be the case in such an example.

KEY CONCEPT

For a combination to be accounted for as a merger, it is essential that both parties participate in determining the terms of the combination. This will result in the establishment of the governance and management structures and the selection of management of the combined organization. The procedural action of signing a combination agreement, however, does not imply participation in the negotiations that led to that agreement.

How is it determined whether consideration flows to a third party?

As described in Criterion (c) above, a merger is generally accomplished by combining all assets and liabilities of the combining entities into a single reporting entity without a transfer of cash or other assets to a third party of the reporting entity. If any consideration flows to a third party, a benefit has been conferred from the combination and, therefore, that combination should be accounted for as an acquisition.

The exception to this, however, is transaction costs. Transaction costs are incremental costs directly attributable to the combination transaction. An incremental cost is one that would not have been incurred if the reporting entity had not undertaken the combination transaction. Transaction costs include expenditures such as advisory, legal, accounting, consulting fees, general administrative costs, severance costs, lease termination costs and other such costs. Such transaction costs are an integral part of many combination arrangements and, accordingly, are not understood as consideration flowing to a third party for the purposes of assessing whether Criterion (c) has been met.

All relevant facts and circumstances related to a combination must be examined in order to determine whether consideration flows to a third party as a result of the combination. Combination transactions may involve the assumption of debt by the reporting entity, the settlement of debt upon combination or the triggering of repayment of contributions because of funding terms. Whether such situations are viewed as consideration being transferred to a third party must be assessed in the context of determining whether a third party is financially bettered directly from the combination. If a third party is financially bettered, Criterion (c) would not be met.

KEY CONCEPT

With the exception of transaction costs, if any consideration flows to a third party, the combination has conferred a benefit and, therefore, the combination is an acquisition.

When does the combination result in changes to the purposes of the combining entities that are considered to be more than minor?

Criterion (d) distinguishes a merger from an acquisition by recognizing that a merger retains the purposes of each combining entity. Some changes to the purposes of the combining entities are likely, however, more than a small change is an indicator of an acquisition.

Changes are considered to be more than minor when they result in significant changes to the service(s) provided to the stakeholders of one of the entities. Such a change is an indicator that the rationale for the combination is for the acquirer to continue some aspects of the acquiree while discontinuing others. Further, if more than a small change to the acquiree's purpose occurs, it will result in the combined comparative balances of the legacy organizations not being comparative due to the resulting change in operations. As a result, more than a small change to the purpose of any of the combining entities indicates an acquisition has occurred.

KEY CONCEPT

When a change to the pre-combination purpose of one or more of the combining entities results in a significant change in the service(s) provided to the stakeholders of either entity, the combination is an acquisition.

Why are changes to the client communities served relevant in assessing whether a combination is a merger or an acquisition?

Criterion (e) distinguishes a merger from an acquisition by asking whether there has been a decline in the client communities served by the combined organization at the combination date. In some combinations, the acquirer only intends to purchase certain aspects of the acquiree. In these cases, a reduction in the acquiree's programs will result immediately in a reduction in the client communities they serve. Applying acquisition accounting provides more decision-useful information because the combined results of the legacy organizations are not comparable to the combined organization which now serves a smaller client community overall. Therefore, when there has been a decline in the client communities served by the combined organization at the combination date, such a combination is accounted for as an acquisition.

A key aspect of Criterion (e) is that it is not met if there is a significant decline or planned significant decline in the client communities served by one or more but not all the organizations that combined to form the reporting entity. If, however, there is a significant decline or planned decline in the client communities served by all of the combining organizations, Criterion (e) would be met. This might occur, for example, if two financially distressed NFPOs combine, and both reduced the client communities they served in order to remain sustainable.

KEY CONCEPT

A reduction in the client communities served by one or more but not all the combining organizations is an indication the acquirer only intends to purchase certain aspects of the acquiree and, accordingly, the combination is an acquisition.

Illustrative Examples

Note: Section 4449 contains several examples of fact patterns applied to the Five Criteria above in order to determine whether a combination is a merger or an acquisition. Much of the professional judgment in applying the accounting guidance in Section 4449 revolves around assessing these Criteria and therefore readers are directed to those illustrative examples for further guidance on the application of the Criteria to specific fact patterns.

The following illustrative examples on the application of the Five Criteria described above in this *Briefing* to specific fact patterns are meant to augment the illustrative examples contained in the standard.

Illustrative Example 1

This example illustrates a combination between two universities near Charlottetown: Marshfield University (MU) and the University of Tarantum (UT). Both are not-for-profit organizations that apply Canadian accounting standards for not-for-profit organizations in the preparation of their financial statements.

Both MU and UT are similar in size and specialize in the sciences, MU in biomedical sciences and UT in earth sciences. Both universities pursue and disseminate knowledge through research and education in the sciences and provide similar undergraduate and graduate courses.

In late 2021, both universities entered into negotiations to draft an agreement to combine their operations under the name of Marshfield Tarantum University (MTU). The terms of the agreement were drafted by a 10-member committee comprised of five board members from each university. The board of governors of each university required unanimous approval of the agreement before it could be ratified.

Under the terms of the agreement, the assets and liabilities of MU and UT would be transferred to the combined organization, MTU. Revisions would be made to grants and contracts in the name of MTU, and new policies and procedures for the operations of the combined organization would be drafted. As of the combination date, all degrees would be issued in the name of MTU. All programs offered by MU and UT prior to the combination would continue to be offered. All administrative and academic operations would be aggregated and streamlined, and any resulting redundant employees terminated and provided with appropriate severance. The 20-member board of governors of MTU would consist of 10 members from each university. Due diligence and legal fees of approximately $500,000 were incurred to draft the agreement and the policies and procedures for the operations of MTU.

On February 7, 2022, both universities announced the combination on their respective websites, indicating the combined university would continue to offer high-quality education and research opportunities, including undergraduate and graduate programs each pre-combination university had offered its students. The purpose of MTU would be the pursuit and dissemination of knowledge through research and education in the sciences.

Should this combination be accounted for as a merger or an acquisition?

- Criterion (a): Met. Based on the facts given above, neither university was characterized as the acquirer or acquiree. In fact, the press releases on each university's website suggested there was no acquirer and that the pre-combination universities were equal partners in the creation of MTU.
- Criterion (b): Met. The combination agreement was drafted by a committee with equal representation from the board of governors of MU and UT. Therefore, those charged with governance of the predecessor organizations participated in determining the terms of the combination, including establishing the governance and management structures of the combined organization.
- Criterion (c): Met. No consideration was paid to a third party as part of the combination. Although severance, due diligence and legal costs were incurred, these costs are judged to be within the definition of transaction costs and therefore not consideration flowing to a third party.
- Criterion (d): Met. The combined university has the same purpose after the combination as the two universities had before. Therefore, the combined university retains the purposes of each pre-combination university.
- Criterion (e): Met. MTU will continue to offer all programs offered by MU and UT. Accordingly, at the combination date, there is no significant decline or planned significant decline in the client communities served by each university subject to the combination. If, however, certain legacy programs were cancelled and/or moved between campuses, professional judgment might be necessary to determine whether this criterion is still being met since such a change might be considered a reduction in the client communities served by each university.

Based on the assessment above that all Five Criteria are met, this combination would be accounted for as a merger.

Illustrative Example 2

The Gladstone Zoo (Zoo G) is a not-for-profit organization that owns and operates a zoo located near Winnipeg. The purpose of Zoo G is to maintain a collection of wild animals for study, conservation and display to the public. Zoo G owns the land on which the zoo is situated; the value of this land has increased significantly since it was purchased nearly 50 years ago. The Gladstone Zoo's newest attraction is an amur tiger (an endangered species) that just gave birth to two cubs. Recently, however, membership and visitation rates have declined because the facilities are outdated. Large amounts of debt and declining revenues have made it difficult to make debt repayments. In addition, the biting of a visitor by an escaped lion resulted in a lawsuit as well as negative publicity. In September 2022, the board of directors decided that continuing operations as-is was not feasible. Accordingly, a decision was made to solicit offers to purchase Zoo G or the land on which it was situated.

The Winnipeg Zoo (Zoo W) is a not-for-profit organization that owns and operates a zoo in Winnipeg. The purpose of Zoo W is also to maintain a collection of wild animals for study, conservation and display to the public. In December 2022, Zoo W's board of directors drafted an offer to combine the operations of Zoo G with its own to form Zoo WG since a third-party purchaser of Zoo G or its land could not be found. This offer was drafted without the input of the board of directors of Zoo G. The key terms of the combination are as follows:

- No cash or other consideration will be transferred from Zoo W to Zoo G or its members. Instead, Zoo W will assume all outstanding liabilities in the transaction, including any contingent liability relating to the lawsuit.
- The assets, including all animals and employees of Zoo G, will be transferred to Zoo W. Redundant employees of Zoo G will be terminated with severance paid as of the date of the combination. This severance is material to the combined operations of Zoo WG.
- Zoo G's current location will remain open, and members of Zoo G will be allowed to visit Zoo W twice during their current annual membership period. Once a current annual membership expires, members will have the option of purchasing an annual membership that includes visits to one or both zoos.
- The board of directors of Zoo WG will consist of 10 members, eight from the existing directors of Zoo W and two from the existing directors of Zoo G.

Should this combination be accounted for as a merger or an acquisition?

- Criterion (a): Not met. Because Zoo G is being actively offered for sale, the buyer will be characterized as the acquirer. Effectively, Zoo G was characterized as the acquiree by its own board of directors when it solicited offers to purchase Zoo G.

- Criterion (b): Not met. Because Zoo W drafted the offer to combine with Zoo G entirely on its own without the input of the board of directors of Zoo G, those charged with governance of both predecessor organizations did not participate in determining the terms of the combination, including establishing the governance and management structures of the combined organization and in selecting management personnel.
- Criterion (c): Met. The combination was effected without transfer of any consideration. The liabilities of Zoo G were assumed by Zoo W but not discharged as a result of the transaction. Even if the liabilities had been discharged as a step in the transaction, this criterion would have failed only if the members of Zoo G had been personally liable for its third-party debts. The discharging of the debts of Zoo G would have resulted in the discharging of the third-party debts of the members of Zoo G (i.e., a third party would be financially bettered by the combination). Generally, the members of a zoo are not personally liable for the debts of the zoo. However, there may be other entities and organizations where the members are personally liable for the debts of the entity or organization, in which case the discharging of such debts may be considered to result in consideration flowing to a third party. Finally, although severance will be paid to terminated employees of Zoo G, such costs are included in the definition of transaction costs, which are not understood to be consideration flowing to a third party.
- Criterion (d): Met. Zoo WG will retain the purposes of Zoo G and Zoo W. Each zoo had a similar purpose prior to the combination, namely, to maintain a collection of wild animals for study, conservation and display to the public.
- Criterion (e): Met. Although Zoo W and Zoo G have combined, there is no plan for Zoo WG to close the former Zoo G location. In addition, members of Zoo G will have the option to continue to be members of Zoo G only or to become members of Zoo W as well. There are also no changes to the operations of Zoo G as a result of the combination. Therefore, at the combination date, there is no significant decline or planned significant decline in the client communities served by either zoo. If, however, Zoo W decides to move Zoo G's animals to Zoo W's location and close Zoo G, Criterion (e) would likely not be met since there would be a decline in the client communities served by Zoo G.

Based on the assessment above that Criteria (a) and (b) are not met, this combination would be accounted for as an acquisition.

Illustrative Example 3

The MNM Cares Foundation (MNM) is a not-for-profit organization that provides youth outreach programs in Windsor. TT Community Centre (TT) is a not-for-profit organization that operates several community centres near Windsor that provide individuals in local communities with social, educational and recreational activities, particularly the youth in those communities. The charters of MNM and TT provide for a maximum of 10 members for their respective boards of directors; the charters, however, specify that at least 60% of the members must be appointed by the Mathers Foundation, a large not-for-profit organization whose purpose is to enrich the lives of youth in Western Ontario.

On June 1, 2022, MNM and TT identified opportunities for collaborative efforts based on their geographic proximity and similarity of service offerings, as well as a focus on youth programs. In addition, the program offerings were seen as complementary. Both agencies provide youth outreach programs involving workers spending time in the community helping youth in need to get through a difficult period in their lives. This is often done through the inclusion of social, educational and recreational activities. As a result, the two boards decided to combine the entities in order to streamline operations and expand their service offerings.

MNM and TT will combine under an agreement that will create a new entity called the Windsor Cares Foundation and Community Centre (WCFCC). MNM and TT will continue to exist separately until such time as integration is deemed necessary. The assets and liabilities of both MNM and TT will be transferred to WCFCC such that, in effect, MNM and TT will no longer exist in their pre-combination forms. As of the combination date, the purpose of WCFCC will be to provide youth and adults in local communities with outreach programs and social, educational and recreational activities. The new board of directors will consist of 15 members, seven from MNM and eight from TT. The charter of WCFCC requires at least nine members of WCFCC's board be appointed by the Mathers Foundation.

Should this combination be accounted for as a merger or an acquisition?

In this case, it is important to first assess whether MNM and TT are under common control. The charter of each organization states that at least 60% of the members of each organization's board be appointed by the Mathers Foundation. The holder of the right to appoint the majority of the voting members of an entity's board normally has the power to determine the entity's strategic operating, investing and financing policies and, therefore, can control the entity. Accordingly, since the

Mathers Foundation has the right to appoint the majority of the voting members of each organization's board of directors, it controls both organizations, making them not-for-profit organizations under common control. Because a combination between such organizations is always accounted for as a merger (as described above in this *Briefing*), an assessment of the criteria for determining whether the combination should be accounted for as an acquisition or a merger is not necessary.

Accounting for a Merger

After an assessment of the Five Criteria listed above has been made, and a conclusion that the combination is to be accounted for as a merger has been reached, the next step is to determine how:

- the assets, liabilities and net assets of the entities subject to the combination should be recognized and measured
- the financial statements of the combined organization should be presented at the combination date[4]
- the combination should be disclosed in the financial statements of the combined organization

At the combination date, how are the assets, liabilities and net assets of the entities subject to the combination recognized and measured?

At the combination date, the carrying values of the assets, liabilities and net assets of the entities subject to the combination become the combined carrying values of the assets, liabilities and net assets of the reporting entity. Except as discussed below, the reporting entity is not permitted to recognize previously unrecognized assets or liabilities such as internally developed intangible assets.

The reporting entity measures the assets, liabilities and net assets in its combined financial statements at the amounts reported in the financial statements of the combining entities as of the combination date. The combining entities may have measured assets and liabilities using different accounting policies in their separate financial statements. The reporting entity is required to make adjustments to achieve uniformity of accounting policies across the combining entities. Such adjustments are made on a retrospective basis except as described below. The uniform accounting policies are reflected in the current and

[4] The combination date is the date on which a not-for-profit organization merges with or acquires one or more not-for-profit organizations.

comparative combined financial statements of the reporting entity. The reason for this is that it is essential to provide comparative prior-year financial information so financial statement users can assess the effects of the combination.

Finally, all transaction costs associated with the merger are required to be charged as an expense during the period incurred.

What if one or more of the combining entities had previously applied the size exemption in Section 4433 or Section 4434?

Prior to the combination, one or more of the combining entities might have applied the exemption in Section 4433, *Tangible Capital Assets Held by Not-for-Profit Organizations* in Part III of the *Handbook,* and/or the exemption in Section 4434, *Intangible Assets Held by Not-for-Profit Organizations* in Part III of the *Handbook*. These exemptions allow a NFPO to expense rather than capitalize costs incurred to acquire tangible or intangible assets when the average of annual revenues recognized in the statement of operations for the current and preceding period of the organization and any entities it controls is less than $500,000, so long as certain disclosures are provided.

Once the entities combine, these exemptions may no longer be applicable because the threshold might be exceeded. The reporting entity now has the option to apply the change in accounting policy meant to ensure uniform accounting policies on a: (a) retrospective basis or (b) a prospective basis for tangible capital assets and intangible assets acquired after the combination date. This exception to the requirement to make adjustments is meant to provide relief and cost savings from having to re-recognize capital assets and intangible assets that have already been expensed prior to the merger.

In determining whether the threshold has been exceeded, the reporting entity assesses the average of annual revenues recognized in the statement of operations for the current and preceding period by aggregating the revenues of the combining entities and any entities they control as if the entities had been combined during those periods.

KEY CONCEPT

In a combination accounted for as a merger, any combining entities that previously applied the size exemptions in Section 4433 or 4434 will need to assess whether the size exemptions are still met after the combination. If not, then the reporting entity will have the option to account for this change in accounting policy retrospectively or prospectively from the combination date.

How are the financial statements of the combined organization presented at the combination date?

As of the combination date, the financial statements of the merging entities are combined to form the financial statements of the reporting entity. The reporting entity presents comparative information showing the combined results of the prior period as though the entities had always been combined. In other words, the assets, liabilities and net assets of the combining entities are aggregated and presented as though they had always been part of the same entity, with comparative figures presented accordingly. The comparative figures are marked as combined figures. If the merging entities have different year ends, the reporting entity presents comparative information for the 12-month period preceding the reporting period chosen for the reporting entity.

KEY CONCEPT

In its combined financial statements at the combination date, the reporting entity records and measures all assets, liabilities and net assets of the entities subject to the merger at their carrying values as at the date of combination. Appropriate adjustments are made to achieve uniformity of accounting policies across the combining entities. The reporting entity presents comparative information showing the combined results of the prior period as though the entities had always been combined.

How are the combined assets, liabilities and net assets subsequently measured and accounted for?

Section 4449 only provides accounting guidance for the recognition and measurement of the assets, liabilities and net assets of the entities subject to the merger at the date of combination. The reporting entity subsequently measures and accounts for the combined assets, liabilities and net assets in accordance with other sections in the *Handbook* applicable to those items, consistent with the reporting entity's accounting policies.

What are the disclosure requirements of Section 4449 with respect to a merger that occurs during the current reporting period?

The objective of the disclosure requirements in Section 4449 pertaining to a merger that occurs during the current reporting period is to ensure the reporting entity discloses information that enables users of its financial statements to evaluate the nature and financial effect of the merger.

Accordingly, the reporting entity is required to disclose, during the reporting period in which the merger takes place:

a. The names of the combining entities, a description of their operations and that a merger occurred;

b. The combination date;

c. The primary reason(s) for the merger;

d. A summary of the principal components of the current reporting period's statement of operations, to indicate:

    i. The amounts relating to the merged entity for the period after the date of the merger; and

    ii. The amounts related to each party to the merger up to the date of the merger;

e. A summary of the principal components of the statement of financial position of each party to the merger, as at the date of the merger;

f. A summary of the principal components of the comparative period's statement of financial position and statement of operations for each party to the merger;

g. The combined carrying amount of the net assets of each party to the merger, differentiating between different categories of net assets or fund balances at the date of the merger; and

h. The nature and amount of any significant adjustments they have made to align accounting policies.

What are the disclosure requirements of Section 4449 with respect to an organization that is party to a merger that occurs after the end of its reporting period but before its financial statements are completed?

When an organization is party to a merger that occurs after the end of its reporting period but before its financial statements are completed, the disclosure requirements are less onerous than if the merger occurred during the period. Nonetheless, the objective of the disclosures is to disclose information that enables users of its financial statements to evaluate the nature of the merger. The organization is required to disclose:

a. The names of the combining entities and a description of the nature of their operations;

b. The combination date; and

c. The primary reason(s) for the merger.

KEY CONCEPT

Regardless of whether the merger occurs during the reporting period or after the reporting period but before the financial statements are completed, disclosure of the merger is required. The specific disclosure requirements, however, differ depending on when the merger occurred.

Comprehensive Example: Refer to Scenario A in the comprehensive example at the end of this *Briefing* for a detailed example that illustrates various aspects of the accounting for a merger, including:

- preparation of the combined statement of financial position at the combination date
- preparation of the combined statement of operations and changes in net assets for the fiscal period that includes the combination, as well as the comparative fiscal period
- sample disclosures of the merger in the combined financial statements

The comprehensive example compares the combined statement of financial position at the date of the combination when the combination is accounted for as a merger and when it is accounted for as an acquisition. It also compares the combined statement of operations and changes in net assets for the fiscal period that includes the combination as well as the prior comparative period when the combination is accounted for as a merger and when it is accounted for as an acquisition.

Accounting for an Acquisition

After making an assessment of the Five Criteria listed above and concluding that the combination is to be accounted for as an acquisition (i.e., at least one of the Five Criteria required for the combination to be accounted for as a merger has not been met and the combination is not a combination of not-for-profit organizations under common control), the next step is to determine how:

- the assets, liabilities and net assets of the entities subject to the combination should be recognized and measured
- the financial statements of the reporting entity should be presented at the date of combination
- the combination should be disclosed in the financial statements of the reporting entity

How is an acquisition accounted for?

An entity accounts for an acquisition by applying the acquisition method. Applying the acquisition method requires the completion of four steps:

1. Identify the acquirer.
2. Determine the combination date.
3. Recognize and measure the identifiable assets acquired and the liabilities assumed.
4. Recognize and measure the excess consideration transferred or a bargain purchase.

It is important to remember that, in accordance with paragraph 14 of Section 4450, a NFPO has the accounting policy choice to report each controlled not-for-profit organization in one of the following ways:

a. By consolidating the controlled organization in its financial statements;

b. By providing the disclosure set out in paragraph 22 of Section 4450; or

c. If the controlled organization is one of a large number of individually immaterial organizations, by providing the disclosure set out in paragraph 26 of Section 4450.

The accounting and disclosure requirements of Section 4450 are beyond the scope of this *Briefing*. However, if the reporting entity chooses to disclose its controlled NFPOs in accordance with Section 4450, it is only required to identify the acquirer, determine the combination date and apply the disclosure requirements described below. If the reporting entity chooses to consolidate its controlled NFPOs subsequent to initial recognition in accordance with Section 4450, all the accounting and disclosure guidance below pertaining to an acquisition is to be applied.

KEY CONCEPT

In a combination accounted for as an acquisition where the reporting entity applies an accounting policy choice to consolidate its controlled NFPOs, the acquisition method is applied in accounting for the acquisition. This requires the identification of the acquirer, the determination of the combination date, and recognition and measurement of the identifiable assets acquired, the liabilities assumed and the excess consideration transferred or a bargain purchase. The reporting entity also discloses the nature and financial effect of the acquisition. If the reporting entity applies the accounting policy choice to disclose its controlled NFPOs, it is only required to determine the acquirer and the combination date and apply the disclosure requirements for acquisitions described below.

Step 1: Identifying the acquirer

The first step in applying the acquisition method is to determine the acquirer. For each acquisition, one of the combining entities must be identified as the acquirer. An acquirer is the NFPO that obtains control of the acquiree. Integral to this definition is the concept of control. Control of a NFPO is defined in Section 4449 as the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others. Assessing control is always a matter of professional judgment; however, Section 4449 provides a reference to guidance included in Section 4450 to assist in applying the definition of control for the purpose of identifying the acquirer.

Strategic operating, investing and financing policies establish the basis for the conduct of an entity's operations and the deployment of its resources. The holder of the right to appoint the majority of the voting members of an entity's board of directors normally has the power to determine the entity's strategic policies. NFPOs are usually established without a transferable ownership interest. Therefore, the right to appoint the majority of another NFPO's board of directors is normally established by other means (e.g., appointment of the board of directors may be dealt with in the organization's by-laws or articles of incorporation). One entity is presumed to control another when it has the right to appoint the majority of the voting members of the other entity's board of directors.

In the absence of the right to appoint the majority of the voting members of another NFPO's board, the reporting enterprise would consider the characteristics of its relationship with the other organization to determine if any indicators of control are present. Possible indicators of control are:

a. A significant economic interest in the other organization;

b. Provisions in the other organization's charter or bylaws that cannot be changed without the reporting organization's consent and that limit the other organization to activities that provide future economic benefits to the reporting organization; or

c. The other organization's purpose is integrated with that of the reporting organization so that the two organizations have common or complementary objectives.

In some cases, the presence of a single indicator of control is sufficient for the organization to conclude control exists. In other cases, more than one indicator of control may be necessary for the organization to conclude that control exists.

KEY CONCEPT

Identifying the acquirer necessitates determining which NFPO in the combination obtains control of the acquiree. Fundamental to this assessment is the concept of control of a NFPO, which is defined as the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.

Step 2: Determining the combination date

The second step in applying the acquisition method is for the acquirer to determine the combination date, which is the date on which it obtains control of the acquiree. An acquirer needs to consider all pertinent facts and circumstances in identifying the combination date. The date on which the acquirer obtains control of the acquiree may be the date on which the acquirer legally transfers any consideration or the date on which it acquires the assets and assumes the liabilities of the acquiree (i.e., the closing date). However, the acquirer may obtain control on a date that is either earlier or later than the closing date. For example, the combination date precedes the closing date if a written agreement provides that the acquirer obtain control of the acquiree on a date before the closing date.

KEY CONCEPT

The combination date is the date on which the acquirer obtains control of the acquiree.

Step 3: Recognizing and measuring the identifiable assets acquired and liabilities assumed

With certain exceptions as described below, as of the combination date, the acquirer recognizes the identifiable[5] assets acquired and the liabilities assumed in the acquiree (i.e., recognition principle). To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets[6] and liabilities[7] respectively in Section 1001, *Financial Statement Concepts for Not-for-Profit Organizations* in Part III of the *Handbook* at the combination date. For example, costs the acquirer expects but is not obliged to incur in the future to affect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the combination date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method; instead, the acquirer recognizes those costs in its post-combination financial statements in accordance with other sections of the *Handbook*.

The acquirer's application of the recognition principle and conditions may result in recognition of some assets and liabilities the acquiree had not previously recognized in its financial statements. For example, the acquirer may recognize acquired identifiable intangible assets[8] (e.g., a brand name, licence or patent) that the acquiree did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense. An identifiable asset may be associated with an operating lease if the terms are favourable relative to market terms, or a liability may be associated with an operating lease if the terms are unfavourable relative to market terms.

KEY CONCEPT

With certain exceptions as described below, the acquirer recognizes the identifiable assets acquired and the liabilities assumed in the acquiree at the combination date, provided they meet the definitions of assets and liabilities respectively in Section 1001 of the *Handbook* at that date. This may result in the acquirer recognizing some assets or liabilities not previously recognized in the financial statements of the acquiree.

[5] An asset is identifiable if it either: (i) is separable (i.e., capable of being separated or divided from the organization and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the organization intends to do so); or (ii) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the not-for-profit organization or from other rights and obligations.

[6] Assets are economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained. Assets have three essential characteristics: (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash flows or to provide services; (b) the entity can control access to the benefit; and (c) the transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred.

[7] Liabilities are obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. Liabilities have three essential characteristics: (a) they embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand; (b) the duty or responsibility obligates the entity leaving it little or no discretion to avoid it; and (c) the transaction or event obligating the entity has already occurred.

[8] An intangible asset is an identifiable non-monetary asset without physical substance.

Are there any exceptions to the recognition principle?

Section 4449 provides two exceptions to the recognition principle for: (1) contingencies and (2) donor or member relationships and lists.

Section 3290, *Contingencies* in Part II of the *Handbook* defines a contingency as an existing condition or situation involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occurs or fails to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability. The requirements in Section 3290 do not apply in determining which contingent liabilities to recognize as of the combination date; instead, the acquirer recognizes a contingent liability if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to Section 3290, the acquirer recognizes a contingent liability assumed in a combination at the combination date even if it is unlikely that a future event will confirm an asset had been impaired or a liability incurred at the date of the financial statements.

An organization may acquire a donor or member list externally or develop donor or member relationships, or donor or member lists, internally. Donor and member relationships differ from customer relationships that typically arise through contractual rights. In addition, estimating the fair value of acquired donor and member relationships is difficult and costly. Accordingly, in recognizing the assets acquired in a combination accounted for as an acquisition, the acquirer is not permitted to recognize donor or member relationships or lists of the acquiree.

What if the identifiable assets acquired and liabilities assumed are not part of what the acquirer and the acquiree exchanged in the combination transaction but rather the result of separate transactions?

In addition to meeting the definitions of assets and liabilities in Section 1001, to qualify for recognition as part of the application of the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree exchanged in the combination transaction rather than the result of separate transactions.

The acquirer and acquiree may have had a pre-existing relationship or other arrangement before negotiations for the combination began, or they may have entered into an arrangement during the negotiations that is separate from the combination. In either situation, the acquirer is required to identify any amounts not part of what the acquirer and the acquiree exchanged in the combination (i.e., amounts that are not part of the exchange for the acquiree). A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquiree before the combination, is likely to be a separate transaction. The following are examples of separate transactions not to be included when applying the acquisition method:

a. A transaction that in effect settles pre-existing relationships between the acquirer and acquiree;

b. A transaction that remunerates employees of the acquiree for future services; and

c. A transaction that reimburses the acquiree for paying the acquirer's acquisition-related costs.

KEY CONCEPT

As part of applying the acquisition method, the acquirer recognizes only the assets acquired and liabilities assumed in exchange for the acquiree. Separate transactions are accounted for in accordance with the relevant sections of the *Handbook.*

How does the acquirer classify or designate identifiable assets acquired and liabilities assumed in a combination?

At the combination date, the acquirer must classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other sections of the *Handbook*. The acquirer makes such classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the combination date.

An exception, however, is provided in Section 4449 for the classification of a lease contract as either an operating lease, capital lease, sales-type lease or a direct financing lease in accordance with Section 3065, *Leases* in Part II of the *Handbook*. The acquirer classifies those contracts on the basis of the contractual terms and other factors existing at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the combination date).

How are the identifiable assets acquired and the liabilities assumed measured at the combination date?

With certain exceptions as described below, the acquirer measures the identifiable assets acquired and liabilities assumed at their acquisition-date fair values (i.e., measurement principle). Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Are there any exceptions to the measurement principle, including for the size exemption in Section 4433 or Section 4434?

Section 4449 provides three exceptions to the measurement principle for: (1) collections (2) assets held for sale and (3) tangible capital assets and intangible assets.

The acquirer measures assets of the acquiree that will be included in the acquirer's collections in accordance with Section 4441, *Collections Held by Not-for-Profit Organizations* in Part III of the *Handbook* using the acquirer's accounting policy, at either cost or nominal value. Cost is deemed to be the fair value of the collection items at the combination date. Fair value may be estimated using market or appraisal values.

The acquirer measures an acquired non-current asset (or disposal group) classified as held for sale at the combination date in accordance with Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations* in Part II of the *Handbook*, at fair value less costs to sell.

The acquirer may have applied, prior to the combination date, the exemptions in Section 4433, and/or Section 4434, when the average of annual revenues recognized in the statement of operations for the current and preceding period of the acquirer and any entities it controls, were less than $500,000. These exemptions allow a NFPO to expense rather than capitalize costs incurred to acquire tangible or intangible assets as long as certain disclosures are provided. Once the acquisition occurs, the exemption might no longer be applicable because the threshold might be exceeded.

In determining whether the threshold has been exceeded, the acquirer assesses the average of annual revenues recognized in the statement of operations for the preceding period by aggregating the revenues of the combining entities and any entities it controls. If this results in the threshold being exceeded, the capital assets and intangible assets of the acquiree are recognized at their fair values as at the date of the acquisition. If the threshold has not been exceeded, the exemption is still applicable, and the reporting entity need not measure the fair values of the capital assets and intangible assets acquired at the date of the acquisition.

Are there any exceptions to both the recognition and measurement principles?

Section 4449 provides three exceptions to both the recognition and measurement principles for: (1) asset retirement obligations (2) employee benefits and (3) indemnification assets.

The acquirer recognizes and measures an asset retirement obligation associated with the assets acquired in accordance with Section 3110, *Asset Retirement Obligations* in Part II of the *Handbook*. In addition, the acquirer recognizes and measures a liability (or an asset, if any) related to the acquiree's employee benefit arrangements in accordance with Section 3463, *Reporting Employee Future Benefits by Not-for-Profit Organizations* in Part III of the *Handbook*.

With respect to indemnification assets, the sellers or third parties in a combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability (e.g., the sellers or third parties may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the sellers or third parties will guarantee the acquirer's liability will not exceed a specified amount). As a result, the acquirer obtains an indemnification asset. The acquirer recognizes an indemnification asset at the same time it recognizes the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability recognized at the combination date and measured at its acquisition-date fair value, the acquirer recognizes the indemnification asset at the combination date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectability considerations are included in the fair value measure and a separate valuation allowance is not necessary.

In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles (e.g., an indemnification may relate to a contingent liability that is not recognized at the combination date because its fair value is not reliably measurable at that date). Alternatively, an indemnification may relate to an asset or a liability measured on a basis other than acquisition-date fair value (e.g., one that results from an employee benefit). In those circumstances, the indemnification asset is recognized and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount.

KEY CONCEPT

Exceptions to the recognition and/or measurement principles are provided in Section 4449 for:

- contingent liabilities
- donor or member relationships and lists
- asset retirement obligations
- employee benefits
- indemnification assets
- collections
- assets held for sale
- tangible capital assets and intangible assets

Refer to the appropriate sections above in this *Briefing* for a description of each of the specific exceptions.

How are acquisition-related costs accounted for?

Acquisition-related costs are costs the acquirer incurs to effect an acquisition. Such costs include finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees and general administrative costs. The acquirer accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received.

KEY CONCEPT

Acquisition-related costs are expensed in the period incurred.

Step 4: Recognizing and measuring the excess of consideration transferred or a bargain purchase

On the combination date, the acquirer is required to determine the difference between: (a) the acquisition-date fair value of the consideration transferred and (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with the guidance above in this *Briefing*. Based on the AcSB's research and the nature of the combination between two or more NFPOs, the recognition of the difference between (a) and (b) above as goodwill or a gain on a bargain purchase (in the statement of operations) does not provide additional insight to financial statement users. Accordingly, when a difference arises between these amounts, it is recognized and presented separately in the statement of changes in net assets.

To ensure financial statement users are able to identify the difference between the consideration transferred and the net assets acquired, the acquirer is required to disclose this difference and present it in the statement of changes in net assets.

KEY CONCEPT

The difference between the acquisition-date fair value of the consideration transferred and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed in a combination accounted for as an acquisition is recognized and presented separately in the statement of changes in net assets.

Other Aspects of Acquisition Accounting

What if the initial accounting for the business combination is incomplete by the end of the reporting period in which the combination occurs?

If the initial accounting for a combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports provisional amounts in its financial statements for the items for which the accounting is incomplete. The fact that the initial accounting is incomplete by the end of the reporting period is not a valid basis for not recognizing the combination in the acquirer's financial statements.

During the measurement period,[9] the acquirer retrospectively adjusts the provisional amounts recognized at the combination date to reflect new information obtained about facts and circumstances that existed as of the combination date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer also recognizes additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the combination date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the combination date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the combination date.

The acquirer considers all pertinent factors when determining whether information obtained after the combination date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the combination date. The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in the amount to be separately measured and disclosed in net assets relating to the combination during the period. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

During the measurement period, the acquirer recognizes adjustments to the provisional amounts as if the accounting for the combination had been completed at the combination date. Thus, the acquirer revises comparative information for prior periods presented in financial statements as needed, including making any changes to depreciation, amortization or other income effects recognized in completing the initial accounting.

[9] The measurement period is the period after the combination date during which the acquirer may adjust the provisional amounts recognized for a combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the fair value of the identifiable assets acquired and liabilities assumed as of the combination date in accordance with the requirements of Section 4449.

After the measurement period ends, the acquirer revises the accounting for a combination only to correct an error in accordance with Section 1506, *Accounting Changes* in Part II of the *Handbook*.

KEY CONCEPT

If the initial accounting for a combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports provisional amounts. These provisional amounts are retrospectively adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed as of the combination date that, if known, would have affected the measurement of the amounts recognized as of that date. The measurement period cannot exceed one year from the combination date and ends when the acquirer receives the information necessary to adjust the provisional amounts or determines that more information is not obtainable.

How are the assets acquired and liabilities assumed or incurred in a combination subsequently accounted for?

In general, an acquirer subsequently measures and accounts for assets acquired and liabilities assumed or incurred in a combination in accordance with other sections of the *Handbook* applicable for those items, depending on their nature. However, Section 4449 provides specific guidance on subsequently measuring and accounting for contingent liabilities recognized as of the combination date and indemnification assets.

After initial recognition and until the liability is settled, cancelled or expires, the acquirer measures a contingent liability recognized in a combination at the higher of: (a) the amount that would be recognized in accordance with Section 3290 or (b) the amount initially recognized. This requirement does not apply to contracts accounted for in accordance with Section 3856, *Financial Instruments* in Part II of the *Handbook*.

At the end of each subsequent reporting period, the acquirer measures an indemnification asset recognized at the combination date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount; for an indemnification asset that is not subsequently measured at its fair value, the acquirer uses management's assessment of the collectability of the indemnification asset. The acquirer derecognizes the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

What happens when the reporting entity chooses to consolidate its controlled NFPO subsequent to initial recognition and the fiscal period of the reporting entity and the controlled entity do not substantially coincide?

A difference in fiscal periods of the reporting entity and the controlled entity does not of itself justify the exclusion of the controlled entity from consolidation. Normally the controlled entity can prepare, for consolidation purposes, statements for a period that exactly or nearly coincides with the fiscal period of the reporting entity.

What are the disclosure requirements of Section 4449 with respect to an acquisition when the reporting entity consolidates its controlled NFPOs subsequent to initial recognition?

The overall objective of the disclosure requirements included in Section 4449 with respect to an acquisition when the reporting entity consolidates its controlled NFPOs subsequent to initial recognition is to enable users of the reporting entity's financial statements to evaluate the nature and financial effect of a combination that occurs either during the current reporting period or after the end of the reporting period but before the financial statements have been completed. If the date of an acquisition is after the end of the reporting period but before the financial statements have been completed, the reporting entity discloses all the information described below unless the initial accounting for the acquisition is incomplete at the time the financial statements are complete. In that situation, the reporting entity describes which disclosures could not be made and the reasons why.

For each material[10] combination, the reporting entity discloses the following information:

a. The name and a description of the acquiree and that an acquisition occurred;

b. The combination date; and

c. The primary reason(s) for the acquisition.

Subsequent to initial measurement, the reporting entity discloses:

a. The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
   i. Cash;
   ii. Liabilities incurred (for example, debt);

b. A description of the arrangement and the basis for determining the amount of the payment for indemnification assets;

c. A condensed statement of financial position showing the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed; and

d. The difference between the consideration transferred and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed and that this difference is presented in the statement of changes in net assets.

For individually immaterial acquisitions occurring during the reporting period that are material collectively, the reporting entity discloses the following information:

a. The number of organizations acquired and a brief description of those organizations; and

[10] Materiality is the term used to describe the significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if it is probable that its omission or misstatement would influence or change a decision. Materiality is a matter of professional judgment in the particular circumstances.

b. Subsequent to initial measurement:
   i. The acquisition-date fair value of the total consideration transferred; and
   ii. A description of the arrangement and the basis for determining the amount of the payment for indemnification assets.

If the specific disclosures required by Section 4449 and other sections do not meet the overall disclosure objectives described above, the reporting entity is required to disclose whatever additional information is necessary to meet those objectives.

What are the disclosure requirements of Section 4449 with respect to an acquisition when the reporting entity does not consolidate its controlled NFPOs subsequent to initial recognition?

The overall objective of these disclosure requirements is to enable users of the reporting entity's financial statements to evaluate the nature and financial effect of a combination that occurs either during the current reporting period or after the end of the reporting period but before the financial statements have been completed. If the date of an acquisition is after the end of the reporting period but before the financial statements have been completed, the reporting entity discloses all the information described above unless the initial accounting for the acquisition is incomplete at the time the financial statements are completed. In that situation, the reporting entity describes which disclosures could not be made and the reasons why they cannot be made.

For each material combination, the reporting entity discloses the following information:

a. The name and a description of the acquiree and that an acquisition occurred;

b. The combination date; and

c. The primary reason(s) for the acquisition.

If the specific disclosures required by Section 4449 and other sections do not meet the overall disclosure objectives described above, the reporting entity is required to disclose whatever additional information is necessary to meet those objectives.

For individually immaterial acquisitions occurring during the reporting period that are material collectively, the reporting entity discloses the number of organizations acquired and provides a brief description of those organizations.

Comprehensive Example: Refer to Scenario B in the comprehensive example at the end of this *Briefing* for a detailed illustration of various aspects of the accounting for an acquisition when the acquirer consolidates its controlled NFPO subsequent to initial recognition, including:

- identifying the acquirer
- determining the combination date
- recognizing and measuring the identifiable assets acquired and the liabilities assumed in the acquiree at the acquisition date

- determining and recognizing the excess of consideration transferred or a bargain purchase
- preparing the consolidated statement of financial position at the acquisition date
- preparing the consolidated statement of operations and changes in net assets for the fiscal period that includes the combination as well as the prior fiscal period
- measuring period adjustments
- providing sample disclosures of the acquisition in the consolidated financial statements of the reporting entity

The comprehensive example compares the consolidated statement of financial position at the date of combination when the combination is accounted for as an acquisition versus when it is accounted for as a merger. It also compares the consolidated statement of operations and changes in net assets for the fiscal period that includes the combination as well as the prior fiscal period when the combination is accounted for as an acquisition versus when it is accounted for as a merger.

Finally, refer to **Scenario C** in the comprehensive example at the end of this *Briefing* for a detailed illustration of various aspects of the accounting for an acquisition when the acquirer does not consolidate its controlled NFPO subsequent to initial recognition, including:

- identifying the acquirer
- determining the combination date
- disclosing the combination

Consequential Amendments

As a result of the issuance of Section 4449, minor consequential amendments were made to Section 1501, *First-time Adoption by Not-for-Profit Organizations* and Section 4450 in Part III of the *Handbook*. A review of the complete guidance contained in each of these sections is beyond the scope of this *Briefing*. These amendments are described below. Readers are directed to review the complete guidance in these sections for the full context of the consequential amendments.

With respect to the consequential amendments to Section 1501, the guidance in paragraph 12 that previously pertained to the recognition, measurement and presentation of past business combinations was amended to apply to past combinations accounted for as acquisitions. Significant amendments to the accounting for a past combination accounted for as an acquisition by a first-time adopter[11] include:

- The same acquisition classification as in its previous financial statements is retained.

[11] A first-time adopter is an organization that presents its financial statements in accordance with accounting standards for not-for-profit organizations for the first time.

- The carrying amount of any goodwill in the opening statement of financial position that arose from the acquisition of a not-for-profit enterprise by a NFPO is excluded from the opening statement of financial position and accounted for by adjusting net assets.

In addition, a first-time adopter accounts for a past combination that had been accounted for as a merger by applying the transition provisions in Section 4449 described above in this *Briefing*.

With respect to the consequential amendments to Section 4450, the scope of Section 4450 now indicates that Section 4449 applies to a combination between NFPOs and that Section 1582 applies to the acquisition of a for-profit organization by a NFPO.

Potential Assurance Impacts of Section 4449

The full assurance implications of Section 4449 for the audits and reviews of private NFPOs are beyond the scope of this *Briefing*. However, some of the high-level potential implications are described below.

With respect to combinations accounted for as mergers, some of the implications of Section 4449 on assurance engagements may include the following:

- additional risks of material misstatement (including significant risks) in an audit engagement or areas in the financial statements likely to contain a material misstatement in a review engagement with respect to one or more of the criteria for assessing whether the combination is a merger or an acquisition, given the significant professional judgment involved in applying the criteria
- consideration of the accounting policies applied in prior periods by each of the NFPOs being combined. Section 4449 requires each NFPO to apply uniform accounting policies. This may result in the restatement of the financial information of one or more of the combining NFPOs and necessitate additional audit or review procedures be performed on the restated comparative financial information.
- consideration of the reporting period of the combined organization and whether additional audit or review procedures need to be performed on the financial information included in the financial statements of the combined organization if, for example, such financial information was previously prepared for a different reporting period and/or was not subject to an audit or review engagement in previous periods. Additional review or audit procedures may also need to be performed on the comparative information due to changes in materiality levels as a result of the combination.
- assessment of the disclosures provided by the combined organization with respect to the merger and additional audit or review procedures to assess whether such disclosures are in accordance with Section 4449

With respect to combinations accounted for as acquisitions, where the acquirer makes the accounting policy choice to consolidate its controlled NFPOs subsequent to initial recognition, some of the implications of Section 4449 on assurance engagements may include the following:

- additional risks of material misstatement (including significant risks) in an audit engagement or in areas in the financial statements likely to contain a material misstatement in a review engagement with respect to one or more of the criteria for assessing whether the combination is a merger or an acquisition, given the significant professional judgment involved in applying the criteria
- additional risks of material misstatement (including significant risks) in an audit engagement or in areas in the financial statements likely to contain a material misstatement in a review engagement with respect to some of the aspects of applying Section 4449 to an acquisition that may involve considerable professional judgment including identifying the acquirer, identifying the acquisition date, determining the fair value of the assets acquired and liabilities assumed and determining what is part of the combination transaction
- additional procedures to audit or review the assets acquired and liabilities assumed, including any fair value adjustments, the need to identify previously unrecognized assets and liabilities and the potential need for valuation specialists to be involved in the audit or review
- consideration of the measurement period, including information obtained throughout the audit or review subsequent to the acquisition date, and whether or not that information should be reflected in a measurement period adjustment
- consideration as to whether additional risks of material misstatement (including significant risks) in an audit engagement or areas in the financial statements likely to contain a material misstatement in a review engagement exist for the consolidated entity that did not exist for the acquirer in prior periods, such as consolidation adjustments
- assessment of the disclosures provided by the acquirer with respect to the acquisition, and additional audit or review procedures to assess whether such disclosures are in accordance with Section 4449

With respect to combinations accounted for as acquisitions, where the acquirer makes the accounting policy choice to not consolidate its controlled NFPOs subsequent to initial recognition, some of the implications of Section 4449 on assurance engagements may include the following:

- additional risks of material misstatement (including significant risks) in an audit engagement or in areas in the financial statements likely to contain a material misstatement in a review engagement with respect to one or more of the criteria for assessing whether the combination is a merger or an acquisition, given the significant professional judgment involved in applying the criteria
- additional risks of material misstatement (including significant risks) in an audit engagement or areas in the financial statements likely to contain a material misstatement in a review engagement with respect to some aspects of applying Section 4449 to an acquisition that may involve considerable professional judgment including identifying the acquirer and the acquisition date
- assessment of the disclosures provided by the acquirer with respect to the acquisition, and additional audit or review procedures to assess whether such disclosures are in accordance with Section 4449

Contact

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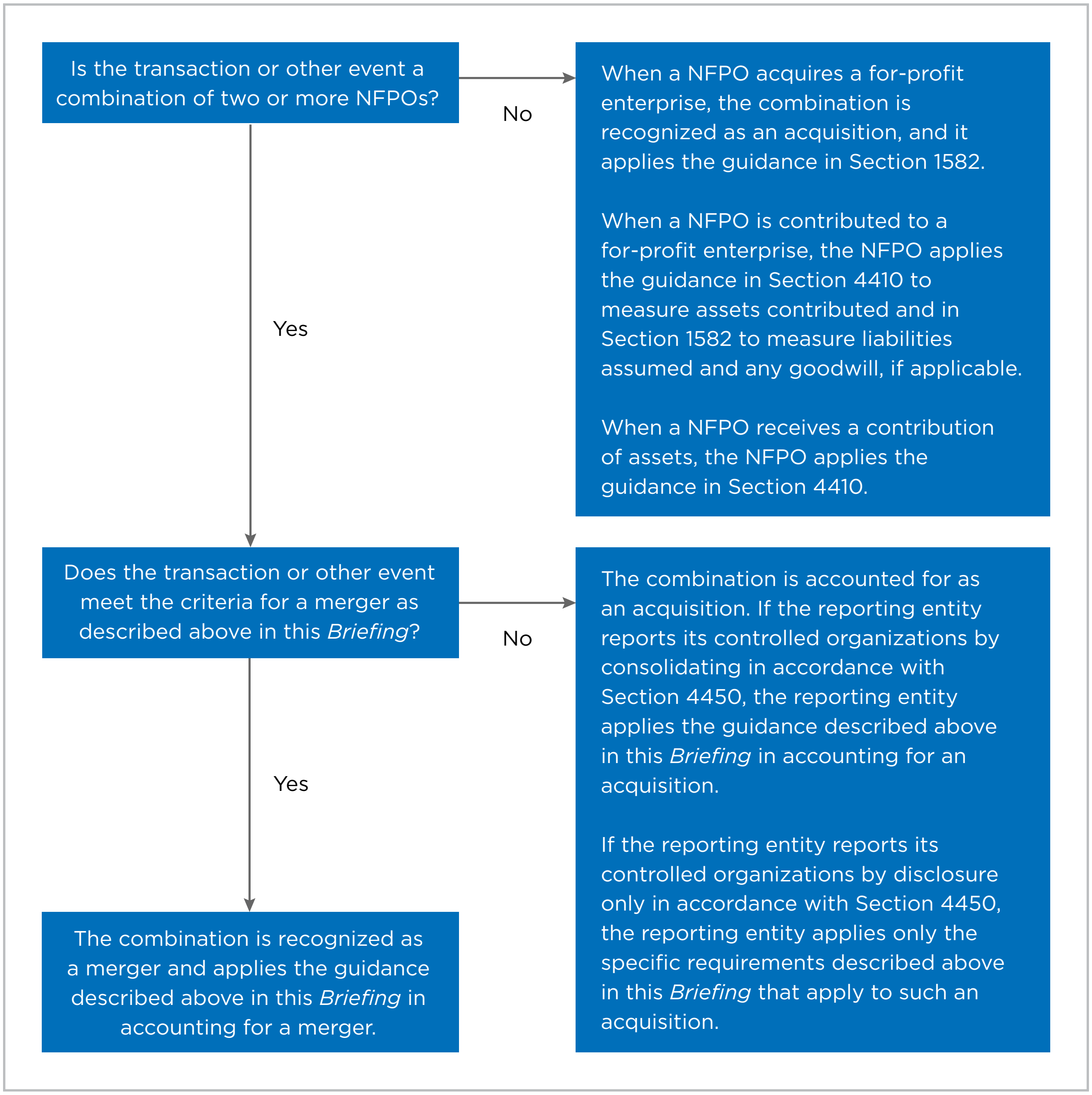
Appendix 1: Decision Tree – Initial Measurement of a Combination Involving NFPOs

This Decision Tree illustrates how the accounting treatment specified in this *Briefing* might be applied in particular situations.



Is the transaction or other event a combination of two or more NFPOs?

When a NFPO acquires a for-profit enterprise, the combination is recognized as an acquisition, and it applies the guidance in Section 1582.

When a NFPO is contributed to a for-profit enterprise, the NFPO applies the guidance in Section 4410 to measure assets contributed and in Section 1582 to measure liabilities assumed and any goodwill, if applicable.

When a NFPO receives a contribution of assets, the NFPO applies the guidance in Section 4410.

Does the transaction or other event meet the criteria for a merger as described above in this *Briefing*?

The combination is accounted for as an acquisition. If the reporting entity reports its controlled organizations by consolidating in accordance with Section 4450, the reporting entity applies the guidance described above in this *Briefing* in accounting for an acquisition.

If the reporting entity reports its controlled organizations by disclosure only in accordance with Section 4450, the reporting entity applies only the specific requirements described above in this *Briefing* that apply to such an acquisition.

The combination is recognized as a merger and applies the guidance described above in this *Briefing* in accounting for a merger.

Appendix 2: High-Level Comparison of the Accounting for a Combination Involving NFPOs As a Merger Versus an Acquisition (when the reporting entity consolidates its controlled NFPOs subsequent to initial recognition)

Element to Consider	Merger	Acquisition
Distinguishing between a merger and an acquisition	All Five Criteria for accounting for the combination as a merger (as described above in this *Briefing*) must be met or the combination must be between NFPOs under common control.	At least one of the Five Criteria for accounting for the combination as a merger (as described above in this *Briefing*) must fail. The combination must be between NFPOs not under common control.
Identification of the acquirer	Not applicable as there is no acquirer in a merger.	The acquirer is the NFPO that obtains control of the acquiree.
Determining the combination date	The combination date is the date on which a NFPO merges with one or more NFPOs.	The combination date is the date on which the acquirer obtains controls of the acquiree.
Recognition principle	As of the combination date, the carrying values of the assets, liabilities and net assets of the entities subject to the combination become the combined carrying values of the assets, liabilities and net assets of the reporting entity.	With limited exceptions (see above in this *Briefing*), as of the combination date, the acquirer recognizes the identifiable assets acquired and the liabilities assumed in the acquiree.
Recognition of previously unrecognized assets or liabilities	With limited exceptions (see above in this *Briefing*), the reporting entity is not permitted to recognize previously unrecognized assets and/or liabilities.	To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in Section 1001 and must be part of what the acquirer and the acquiree exchanged in the combination transaction rather than the result of separate transactions. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities the acquiree had not previously recognized as assets and liabilities in its financial statements.

Element to Consider	Merger	Acquisition
Measurement principle	The reporting entity measures the assets, liabilities and net assets in its combined financial statements at the amounts reported in the financial statements of the combining entities as of the combination date, with adjustments to achieve uniformity of accounting policies across the combining entities.	With limited exceptions (see above in this *Briefing*), the acquirer measures the identifiable assets acquired and liabilities assumed at their acquisition-date fair values.
Presentation	As of the combination date, the financial statements of the merging entities are combined to form the financial statements of the reporting entity. The reporting entity presents comparative information showing the combined results of prior periods as though the entities had always been combined.	The acquirer includes only the financial position, results of operations and cash flows of the acquiree as of, and subsequent to, the acquisition date in its financial statements. The net assets of the acquiree at the date of acquisition by the acquirer are not included in consolidated net assets.
Transaction costs	All transaction costs associated with the merger are charged as an expense during the period incurred.	The acquirer accounts for acquisition-related costs as an expense in the period in which the costs are incurred and the services are received.
Excess of consideration transferred or a bargain purchase	Not applicable since a merger is accomplished by combining all assets and liabilities of the combining entities into a single reporting entity without a transfer of cash or other assets to a third party of the reporting entity.	When a difference arises between: (a) the acquisition-date fair value of the consideration transferred; and (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (measured in accordance with Section 4449), it is recognized and presented separately in the statement of changes in net assets.

Element to Consider	Merger	Acquisition
Measurement period	Not applicable for a merger since the assets, liabilities and net assets of the entities subject to the combination are measured at their carrying amounts.	If the initial accounting for a combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer retrospectively adjusts the provisional amounts recognized at the combination date to reflect new information obtained about facts and circumstances that existed as of the combination date and, if known, would have affected the measurement of the amounts recognized as of that date.
Subsequent measurement and accounting	The reporting entity subsequently measures and accounts for the combined assets, liabilities and net assets in accordance with other sections of the *Handbook* applicable to those items and consistent with the reporting entity's accounting policies.	With certain exceptions, the acquirer subsequently measures and accounts for assets acquired and liabilities assumed or incurred in a combination in accordance with other sections of the *Handbook* applicable to those items, depending on their nature.
Financial information at different dates	If the merging entities have different year ends, the reporting entity presents comparative information for the 12-month period preceding the reporting period chosen for the reporting entity (i.e., the combined not-for-profit organization once the merger occurs).	Normally the acquiree can prepare (i.e., for consolidation purposes) statements for a period that exactly or nearly coincides with the fiscal period of the reporting entity (i.e., the acquirer inclusive of the acquiree).
Disclosure	The reporting entity discloses information that enables users of its financial statements to evaluate the nature and financial effect of a merger that occurs during the current reporting period or after the end of its reporting period but before its financial statements have been completed. The disclosure requirements differ for each and are described above in this *Briefing*.	The reporting entity discloses information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either during the current reporting period or after the end of the reporting period but before the financial statements have been completed. The disclosure requirements differ for each and are described above in this *Briefing*.

Appendix 3: High-level Comparison of the Accounting for an Acquisition in Accordance with Section 4449 Versus Section 1582 (when the reporting entity consolidates its controlled NFPOs subsequent to initial recognition)

Element to Consider	Section 4449	Section 1582
Distinguishing between a merger and an acquisition	At least one of the Five Criteria for accounting for the combination as a merger (as described above in this *Briefing*) must fail. The combination must be between NFPOs not under common control.	Section 1582 only includes guidance on accounting for the acquisition of a profit-oriented enterprise; it does not include guidance on accounting for the merger of two or more profit-oriented enterprises.
Identification of the acquirer	The acquirer is the NFPO that obtains control of the acquiree.	The acquirer is the entity that obtains control of the acquiree.
Determining the combination (i.e., acquisition) date	The combination date is the date on which the acquirer obtains controls of the acquiree.	The acquisition date is the date on which the acquirer obtains control of the acquiree.
Recognition principle	With limited exceptions (see above in this *Briefing*), as of the combination date, the acquirer recognizes the identifiable assets acquired and the liabilities assumed in the acquiree.	With limited exceptions, as of the acquisition date, the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.
Recognition of previously unrecognized assets or liabilities	To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in Section 1001 and must be part of what the acquirer and the acquiree exchanged in the combination transaction rather than the result of separate transactions. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities the acquiree had not previously recognized in its financial statements.	To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in Section 1000, *Financial Statement Concepts* in Part II of the *Handbook* at the acquisition date and must be part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination transaction rather than the result of separate transactions. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities the acquiree had not previously recognized in its financial statements.

Element to Consider	Section 4449	Section 1582
Measurement principle	With limited exceptions (see above in this *Briefing*), the acquirer measures the identifiable assets acquired and liabilities assumed at their acquisition-date fair values.	With limited exceptions, the acquirer measures the identifiable assets acquired and liabilities assumed at their acquisition-date fair values.
Presentation	The acquirer includes only the financial position, results of operations and cash flows of the acquiree as of, and subsequent to, the acquisition date in its financial statements. The net assets of the acquiree at the date of acquisition are not included in consolidated net assets.	The acquirer includes only the financial position, results of operations and cash flows of the acquiree as of, and subsequent to, the acquisition date in its financial statements. The retained earnings or deficit of a subsidiary company at the date of acquisition by the parent are not included in consolidated retained earnings.
Transaction costs	The acquirer accounts for acquisition-related costs as an expense in the period in which the costs are incurred and the services are received.	The acquirer accounts for acquisition-related costs as an expense in the period in which the costs are incurred and the services are received, with one exception. The costs to issue debt and equity securities are recognized in accordance with Section 3856, *Financial Instruments* and Section 3610, *Capital Transactions* in Part II of the *Handbook* respectively.
Excess of consideration transferred or a bargain purchase	When a difference arises between: (a) the acquisition-date fair value of the consideration transferred; and (b) the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (measured in accordance with Section 4449), that difference is recognized and presented separately in the statement of changes in net assets.	The acquirer recognizes goodwill as of the acquisition date measured as the excess of (a) the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and (b) the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If the amount in (b) described above exceeds (a), the acquirer recognizes the resulting gain on a bargain purchase in net income on the acquisition date.

Element to Consider	Section 4449	Section 1582
Contingent consideration[12]	Section 4449 does not include guidance on accounting for contingent consideration as it is generally not applicable to NFPOs.	The acquirer recognizes the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.
Acquisition achieved in stages	Section 4449 does not include guidance on accounting for an acquisition achieved in stages as NFPOs do not have equity interests and, accordingly, an acquisition of a NFPO is generally not achieved in stages.	In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in net income.
Measurement period	If the initial accounting for a combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer retrospectively adjusts the provisional amounts recognized at the combination date to reflect any new information obtained about facts and circumstances that existed as of the combination date and, if known, would have affected the measurement of the amounts recognized as of that date.	If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer retrospectively adjusts the provisional amounts recognized at the acquisition date to reflect any new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date.
Subsequent measurement and accounting	With certain exceptions, the acquirer subsequently measures and accounts for assets acquired and liabilities assumed or incurred in a combination in accordance with other sections of the *Handbook* applicable to those items, depending on their nature.	With certain exceptions, the acquirer subsequently measures and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable sections of the *Handbook* for those items, depending on their nature.

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

Element to Consider	Section 4449	Section 1582
Financial information at different dates	Normally the acquiree can prepare, for consolidation purposes, statements for a period that exactly or nearly coincides with the fiscal period of the reporting entity.	Normally the subsidiary can prepare, for consolidation purposes, statements for a period that exactly or nearly coincides with the fiscal period of the parent.
Disclosure	The overall objective is for the reporting entity to disclose information that enables users of its financial statements to evaluate the nature and financial effect of a combination that occurs either during the current reporting period or after the end of the reporting period but before the financial statements have been completed. The disclosure requirements for a combination accounted for as an acquisition in accordance with Section 4449 are described above in this *Briefing*.	The overall objective is for the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either during the current reporting period or after the end of the reporting period but before the financial statements have been completed. The disclosure requirements of Section 1582 are similar to the disclosure requirements in Section 4449 for concepts that apply to both sections. The specific disclosure requirements of Section 1582 are beyond the scope of this *Briefing*.

Comprehensive Example – Accounting for Mergers and Acquisitions

Purpose

The purpose of this comprehensive example is to illustrate the differences in accounting for a combination as a merger versus an acquisition and to provide some of the key accounting concepts for each type of combination. The comprehensive example will *not* go through the judgment applied in assessing the Five Criteria used to determine whether a combination is to be accounted for as a merger or an acquisition. Examples of the application of each of these Criteria are provided above in this *Briefing* as well as in the illustrative examples included in Section 4449.

There are three scenarios included in the comprehensive example:

1. **Scenario A:** a combination between two NFPOs accounted for as a merger
2. **Scenario B:** a combination between two NFPOs accounted for as an acquisition where the acquirer makes the accounting policy choice to consolidate its controlled NFPOs subsequent to initial recognition
3. **Scenario C:** a combination between two NFPOs accounted for as an acquisition where the acquirer makes the accounting policy choice to not consolidate its controlled NFPOs subsequent to initial recognition

Background for the Comprehensive Example

This comprehensive example illustrates the accounting for a combination between two NFPOs: Vaughan Centre for Student Success and the E. Rose Foundation. Background and select financial information of the two entities can be found below. On October 1, 2022, the two entities entered into an agreement to combine their operations for the purpose of continuing their current program offerings and expanding their operations to more areas in the Greater Toronto Area. Transaction costs of $5,000 were shared equally subject to the combination and have been recognized within professional fees in the statement of operations and changes in net assets of each entity. Subsequent to the combination, the combined organization will operate under the name of E. Rose Foundation for Student Success. The two NFPOs were unrelated prior to the combination.

Background and financial information – Vaughan Centre for Student Success

Vaughan Centre for Student Success (the Organization) is a charitable foundation incorporated as a not-for-profit organization under the laws of Canada. The primary purpose of the Organization is to raise and disburse funds in support of educational and enrichment activities within the City of Vaughan primarily through its afterschool programs for middle-school children in communities in need. Programs focus on encouraging healthy lifestyles that include physical activities, food preparation training and nutrition studies.

The Organization prepares its financial statements in accordance with Canadian accounting standards for not-for-profit organizations and has a March 31 year end. Select financial information of the Organization is presented below:

Vaughan Centre for Student Success Statement of Financial Position As at March 31, 2023	**March 31, 2023**	**October 1, 2022**	**March 31, 2022**
Assets			
Current			
Cash and cash equivalents	$ 600,000	$ 630,000	$ 577,500
Marketable securities	215,000	135,000	170,000
Accounts receivable	12,000	18,000	9,000
Inventory	202,500	180,000	180,000
Prepaid expenses	7,500	6,750	9,750
	$ 1,037,000	$ 969,750	$ 946,250
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 60,000	$ 97,500	$ 75,000
Deferred contributions	495,000	406,500	420,000
	$ 555,000	$ 504,000	$ 495,000
Net Assets			
Unrestricted	482,000	465,750	451,250
	$ 1,037,000	$ 969,750	$ 946,250

The Organization's marketable securities consist of investments in mutual funds which the Organization has elected to measure at fair value each period. The Organization recognizes contributions using the deferral method of revenue recognition. Finally, the Organization has utilized the exemption in Section 4433 to expense tangible capital assets when acquired.

Vaughan Centre for Student Success Statement of Operations and Changes in Net Assets Period from October 1, 2022 to March 31, 2023	**Period from October 1, 2022 to March 31, 2023**	**Period from April 1, 2022 to September 30, 2022**	**Year ended March 31, 2022**
Revenues			
City of Vaughan	$ 86,250	$ 86,250	$ 157,500
Ministry of Children, Community and Social Services	69,750	69,750	126,000
Donations	30,000	30,000	58,500
Change in fair value of marketable securities	3,750	3,750	(2,500)
	$ 189,750	$ 189,750	$ 339,500
Expenses			
Program costs	$ 144,625	$ 146,375	$ 286,500
Administrative expenses	21,825	21,825	45,000
Fundraising costs	1,425	1,425	3,000
Professional fees	5,625	5,625	10,800
	$ 173,500	$ 175,250	$ 345,300
Excess (deficiency) of revenues over expenses	16,250	14,500	(5,800)
Net assets – beginning of the period	465,750	451,250	457,050
Net assets – end of the period	$ 482,000	$ $465,750	$ 451,250

Background and financial information – E. Rose Foundation

E. Rose Foundation (the Foundation) is a charitable foundation incorporated as a not-for-profit organization under the laws of Canada. The primary purpose of the Foundation is to raise and disburse funds in support of educational and enrichment activities within the City of Richmond Hill, particularly through its student nutrition program which aims to provide meals and snacks to elementary school students in need.

The Foundation prepares its financial statements in accordance with Canadian accounting standards for not-for-profit organizations and has a March 31 year end. Select financial information of the Foundation is presented below:

E. Rose Foundation Statement of Financial Position **As at March 31, 2023**		**March 31, 2023**		**October 1, 2022**		**March 31, 2022**
Assets						
Current						
Cash and cash equivalents	$	400,000	$	420,000	$	385,000
Marketable securities		140,000		90,000		115,000
Accounts receivable		8,000		12,000		6,000
Inventory		135,000		120,000		120,000
Prepaid expenses		5,000		4,500		6,500
	$	688,000	$	646,500	$	632,500
Liabilities						
Current						
Accounts payable and accrued liabilities	$	55,000	$	65,000	$	50,000
Current portion of long-term debt		25,000		25,000		25,000
Deferred contributions		340,000		278,500		280,000
		420,000		368,500		355,000
Long-term debt		250,000		267,500		275,000
	$	670,000	$	636,000	$	630,000
Net assets						
Unrestricted		18,000		10,500		2,500
	$	688,000	$	646,500	$	632,500

The Foundation's marketable securities consist of investments in mutual funds which the Foundation subsequently measures at amortized cost. The Foundation recognizes contributions using the deferral method of revenue recognition. The Foundation has utilized the exemption in Section 4433 to expense tangible capital assets when acquired.

In its financial statements for the year ended March 31, 2022, the Foundation disclosed a contingent liability relating to a wrongful dismissal lawsuit brought against the Foundation by a former employee. The disclosure indicates the employee is seeking damages of $70,000, but no contingent liability has been recognized since it is not likely that a future event will confirm a liability has been incurred at the date of the financial statements. The lawsuit is still ongoing as of March 31, 2023.

E. Rose Foundation **Statement of Operations and Changes in Net Assets** **Period from October 1, 2022 to March 31, 2023**	**Period from October 1, 2022 to March 31, 2023**	**Period from April 1, 2022 to September 30, 2022**	**Year ended March 31, 2022**
Revenues			
City of Richmond Hill	$ 57,500	$ 57,500	$ 105,000
Ministry of Children, Community and Social Services	46,500	46,500	84,000
Donations	20,000	20,000	39,000
	$ 124,000	$ 124,000	$ 228,000
Expenses			
Program costs	$ 97,000	$ 97,000	$ 191,000
Administrative expenses	14,550	14,550	30,000
Fundraising costs	1,200	700	2,000
Professional fees	3,750	3,750	7,200
	$ 116,500	$ 116,000	$ 230,200
Excess (deficiency) of revenues over expenses	7,500	8,000	(2,200)
Net assets – beginning of the period	10,500	2,500	4,700
Net assets – end of the period	$ 18,000	$ 10,500	$ 2,500

Scenario A: The Combination Is Accounted for As a Merger

Criteria for recognition as a merger

In this scenario, assume all Five Criteria necessary for this combination to be accounted for as a merger have been met:

- No party to the combination was characterized as either the acquirer or acquiree, either by its own board or management or by that of the other party to the combination.
- Those charged with governance of both the Foundation and the Organization participated in determining the terms of the combination, including establishing the governance and management structures of the combined organization and in selecting management personnel.
- No consideration flowed to a third party as a result of the combination.
- The purpose of the combined entity will encompass the purposes of both the Foundation and the Organization.

- At the combination date, there has been no significant decline nor is there a planned significant decline in the client communities served by either the Foundation or the Organization. No programs or services will be reduced. The objective of the combination is actually to increase the programs and services offered by the combined entity through an increase in the resources available.

Additional information pertaining to the merger

As described above in the comprehensive example, the Organization subsequently measures its investments in mutual funds at fair value while the Foundation subsequently measures its investments in mutual funds at amortized cost. The combined organization has determined that its accounting policy with respect to investments in mutual funds will be to measure them at fair value each period. As at October 1, 2022, the carrying value of the Foundation's marketable securities is $90,000; however, the fair value of the marketable securities is $110,000. An adjustment will need to be made in the combined statement of financial position to achieve uniformity of accounting policies across the combining entities.

Further, if the marketable securities held by the Foundation had been measured at fair value, an unrealized loss of $5,000 would have been recognized for the year ended March 31, 2022, and an unrealized gain of $8,500 would have been recognized for the year ended March 31, 2023. Finally, the difference between the fair value of the marketable securities and their carrying value as at April 1, 2021 was $15,000.

Combined statement of financial position at the combination date

Based on the financial information provided above for both the Organization and the Foundation as at October 1, 2022, the combined statement of financial position at the combination date is as follows:

E. Rose Foundation for Student Success Combined Statement of Financial Position As at October 1, 2022	Organization	Foundation	Adjustments	Combined
Assets				
Current				
Cash and cash equivalents	$ 630,000	$ 420,000	$ -	$ 1,050,000
Marketable securities	135,000	90,000	20,000	245,000
Accounts receivable	18,000	12,000	-	30,000
Inventory	180,000	120,000	-	300,000
Prepaid expenses	6,750	4,500	-	11,250
	$ 969,750	$ 646,500	$ 20,000	$ 1,636,250

E. Rose Foundation for Student Success Combined Statement of Financial Position As at October 1, 2022	Organization	Foundation	Adjustments	Combined
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 97,500	$ 65,000	-	$ 162,500
Current portion of long-term debt	-	25,000	-	25,000
Deferred contributions	406,500	278,500	-	685,000
	504,000	368,500	-	872,500
Long-term debt	-	267,500	-	267,500
	$ 504,000	$ 636,000	-	$ 1,140,000
Net assets				
Unrestricted	465,750	10,500	20,000	496,250
	$ 969,750	$ 646,500	$ 20,000	$ 1,636,250

The only adjustment to the combined statement of financial position is an adjustment to measure the marketable securities held by the Foundation at their fair value at the combination date in order to achieve uniformity of accounting policies across the combining entities. The offsetting entry for this adjustment is shown as an adjustment to net assets; however, the offsetting entry is actually to the change in fair value of investments recognized in the combined statement of operations and changes in net assets in periods prior to October 1, 2022, which results in an adjustment to net assets.

Combined statements of operations and changes in net assets for the years ended March 31, 2023 and March 31, 2022

As described above, both combining entities applied the exemption in Section 4433 to expense tangible capital assets when acquired. Accordingly, an assessment must be made as to whether this exemption will be met for the combined entity going forward. Based on the financial information provided above, the combined revenue of the Foundation and the Organization was $567,500 for the year ended March 31, 2022 and $627,500 for the year ended March 31, 2023. Accordingly, the average of annual revenues recognized in the statement of operations for the current and preceding periods for the combined entity is $597,500, which exceeds the $500,000 threshold. As a result, the exemption in Section 4433 no longer applies to the combined entity; it has, instead, the option to apply this change in accounting policy on a retrospective basis or on a prospective basis from the date of the combination. In this comprehensive example, the combined entity has chosen to apply this change in accounting policy on a prospective basis. The capital expenses incurred subsequent to the date of combination amounted to $10,000, which had previously been included in program costs. Amortization of $1,000 was recognized on these assets during the year ended March 31, 2023.

Based on the adjustments described above for both the change in accounting policy for the Foundation to recognize its investments in mutual funds at fair value in each period and the change in accounting policy to recognize capital assets for the combined entity after the date of the combination, the combined statements of operations and changes in net assets for the years ended March 31, 2023[13] and 2022 are as follows:

E. Rose Foundation for Student Success Combined Statement of Operations and Changes in Net Assets Year ended March 31, 2023	**Organization**	**Foundation**	**Adjustments**	**Combined**
Revenues				
City of Richmond Hill	$ -	$ 115,000	$ -	$ 115,000
City of Vaughan	172,500	-	-	172,500
Ministry of Children, Community and Social Services	139,500	93,000	-	232,500
Donations	60,000	40,000	-	100,000
Change in fair value of marketable securities	7,500	-	8,500	16,000
	$ 379,500	$ 248,000	$ 8,500	$ 636,000
Expenses				
Program costs	$ 291,000	$ 194,000	$ (10,000)	$ 475,000
Administrative expenses	43,650	29,100	-	72,750
Fundraising costs	2,850	1,900	-	4,750
Professional fees	11,250	7,500	-	18,750
Amortization	-	-	1,000	1,000
	$ 348,750	$ 232,500	$ (9,000)	$ 572,250
Excess of revenues over expenses	30,750	15,500	17,500	63,750
Net assets – beginning of the year	451,250	2,500	10,000	463,750
Net assets – end of the year	$ 482,000	$ 18,000	$ 27,500	$ 527,500

[13] The combined statement of operations and changes in net assets for the year ended March 31, 2023 includes the statement of operations for each entity for the period from April 1, 2022 to September 30, 2022 (i.e., the pre-combination period) as well as for the period from October 1, 2022 to March 31, 2023 (i.e., the post-combination period).

The following adjustments were made to the combined statement of operations and changes in net assets of E. Rose Foundation for Student Success for the year ended March 31, 2023:

- The change in fair value of marketable securities was increased by $8,500, which is the change in fair value of the marketable securities held by the Foundation during the period. The Foundation previously measured these marketable securities at amortized cost; however, to achieve uniformity of accounting policies across the combining entities, the investments in marketable securities were measured at fair value, resulting in the $8,500 gain.
- Program costs were reduced by $10,000 as a result of the exemption in Section 4433 to expense tangible capital assets when acquired no longer being met after the combination. The combined entity has chosen to apply this change in accounting policy prospectively. Accordingly, $10,000 in capital assets purchased subsequent to the combination date must be removed from program expenses and recognized as capital assets. This also resulted in the recognition of $1,000 in amortization expense during the year ended March 31, 2023 on the capitalized assets.
- The adjustment to opening net assets is a result of the adjustments made to the combined statement of operations and changes in net assets of E. Rose Foundation for Student Success for the year ended March 31, 2022 (below).
- Note that there is no adjustment required for the transaction costs relating to the merger as these costs have been expensed by each entity within professional fees. In accordance with Section 4449, all such transaction costs are charged as an expense during the period incurred.

E. Rose Foundation for Student Success Combined Statement of Operations and Changes in Net Assets Year ended March 31, 2022	**Organization**	**Foundation**	**Adjustments**	**Combined**
Revenues				
City of Richmond Hill	$ -	$ 105,000	$ -	$ 105,000
City of Vaughan	157,500	-	-	157,500
Ministry of Children, Community and Social Services	126,000	84,000	-	210,000
Donations	58,500	39,000	-	97,500
Change in fair value of marketable securities	(2,500)	-	(5,000)	(7,500)
	$ 339,500	$ 228,000	$ (5,000)	$ 562,500

E. Rose Foundation for Student Success Combined Statement of Operations and Changes in Net Assets **Year ended March 31, 2022**	**Organization**	**Foundation**	**Adjustments**	**Combined**
Expenses				
Program costs	$ 286,500	$ 191,000	-	$ 477,500
Administrative expenses	45,000	30,000	-	75,000
Fundraising costs	3,000	2,000	-	5,000
Professional fees	10,800	7,200	-	18,000
	$ 345,300	$ 230,200	-	$ 575,500
Deficiency of revenues over expenses	(5,800)	(2,200)	(5,000)	(13,000)
Net assets – beginning of the year	457,050	4,700	15,000	476,750
Net assets – end of the year	$ 451,250	$ 2,500	$ 10,000	$ 463,750

As can be seen from the statements of operations and changes in net assets above, E. Rose Foundation for Student Success presents comparative information showing the combined results of the prior period as though the entities had always been combined, despite the fact the combination did not occur until October 1, 2022.

The following adjustments were made to the combined statement of operations and changes in net assets of E. Rose Foundation for Student Success for the year ended March 31, 2022:

- The change in fair value of marketable securities was decreased by $5,000, which is the change in fair value of the marketable securities held by the Foundation during the period. The Foundation previously measured these marketable securities at amortized cost; however, to achieve uniformity of accounting policies across the combining entities, the investments in marketable securities were measured at fair value, resulting in the $5,000 loss.
- Similarly, the $15,000 adjustment to opening net assets as at April 1, 2021 is to align the accounting policies of the combining entities with respect to measuring investments in marketable securities at fair value. The difference between the fair value of the marketable securities and their carrying value as at April 1, 2021 was $15,000.

Disclosure of the merger in the combined financial statements

The following is a sample disclosure of the merger in the combined financial statements of E. Rose Foundation for Student Success for the year ended March 31, 2023:

X. Combination

On October 1, 2022, Vaughan Centre for Student Success (the Organization) and E. Rose Foundation (the Foundation) entered into an agreement to combine their operations and form E. Rose Foundation for Student Success (the Combined Organization). The combination has been accounted for as a merger in accordance with Section 4449, *Combinations by Not-for-Profit Organizations* of Canadian Accounting Standards for Not-for-profit Organizations.

The Organization is a not-for-profit organization whose primary purpose is to raise and disburse funds in support of educational and enrichment activities within the City of Vaughan primarily through its afterschool programs for middle school children in communities in need. The Foundation is a not-for-profit organization whose primary purpose is to raise and disburse funds in support of educational and enrichment activities within the City of Richmond Hill, particularly through its student nutrition program which aims to provide meals and snacks to elementary school students in need. The primary reason for the combination was to consolidate and streamline the operations of the two combining entities such that afterschool and nutritional programs could be provided in the cities of Richmond Hill and Vaughan and to other communities in need in the Greater Toronto Area in future years.

The results of operations for the year ended March 31, 2023 are the aggregated results for the period from April 1, 2022 to September 30, 2022 of the two entities when they were operating independently and the results of the Combined Organization for the period from October 1, 2022 to March 31, 2023. The prior year comparative figures show the aggregated results of the two entities when they were operating independently. The aggregated results include adjustments made to the comparative balances of both organizations to align the prior year accounting policies with those of the Combined Organization.

The principal components of the combined statement of operations for the year ended March 31, 2023[14] are as follows:

Combined statement of operations Year ended March 31, 2023	Period from October 1, 2022 to March 31, 2023 Combined	Period from April 1, 2022 to September 30, 2022 Organization	Period from April 1, 2022 to September 30, 2022 Foundation	Total
Revenues				
City of Richmond Hill	$ 57,500	$ -	$ 57,500	$ 115,000
City of Vaughan	86,250	86,250	-	172,500
Ministry of Children, Community and Social Services	116,250	69,750	46,500	232,500
Donations	50,000	30,000	20,000	100,000
Change in fair value of marketable securities	7,250	3,750	5,000	16,000
	$ 317,250	$ 189,750	$ 129,000	$ 636,000
Expenses				
Program costs	$ 231,625	$ 146,375	$ 97,000	$ 475,000
Administrative expenses	36,375	21,825	14,550	72,750
Fundraising costs	2,625	1,425	700	4,750
Professional fees	9,375	5,625	3,750	18,750
Amortization	1,000	-	-	1,000
	$ 281,000	$ 175,250	$ 116,000	$ 572,250
Excess of revenues over expenses	$ 36,250	$ 14,500	$ 13,000	$ 63,750

[14] Paragraph 19(d) of Section 4449 requires the reporting entity to disclose during the reporting period in which the merger takes place a summary of the principal components of the current reporting period's statement of operations to indicate: (i) the amounts relating to the merged entity for the period after the date of the merger, and (ii) the amounts related to each party to the merger up to the date of the merger. The illustrative disclosure in this *Briefing* includes all financial statement line items in each entity's statement of operations; however, this information could also be summarized into fewer line items depending on the needs of the users of the financial statements of the reporting entity (e.g., revenues, expenses and excess of revenues over expenses in this case).

The principal components of the combined statement of financial position as at October 1, 2022, including the combined carrying amount of the net assets of each party to the merger as at that date, are as follows:

Combined statement of financial position As at October 1, 2022	Organization	Foundation	Combined
Assets			
Current			
Cash and cash equivalents	$ 630,000	$ 420,000	$ 1,050,000
Marketable securities	135,000	110,000	245,000
Accounts receivable	18,000	12,000	30,000
Inventory	180,000	120,000	300,000
Prepaid expenses	6,750	4,500	11,250
	$ 969,750	$ 666,500	$ 1,636,250
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 97,500	$ 65,000	$ 162,500
Current portion of long-term debt	-	25,000	25,000
Deferred contributions	406,500	278,500	685,000
	504,000	368,500	872,500
Long-term debt	-	267,500	267,500
	$ 504,000	$ 636,000	$ 1,140,000
Net Assets			
Unrestricted	465,750	30,500	496,250
	$ 969,750	$ 666,500	$ 1,636,250

The principal components of the combined statement of financial position as at March 31, 2022[15] are as follows:

Combined statement of financial position As at March 31, 2022	Organization	Foundation	Combined
Assets			
Current			
Cash and cash equivalents	$ 577,500	$ 385,000	$ 962,500
Marketable securities	170,000	130,000	300,000
Accounts receivable	9,000	6,000	15,000
Inventory	180,000	120,000	300,000
Prepaid expenses	9,750	6,500	16,250
	$ 946,250	$ 647,500	$ 1,593,750
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 75,000	$ 50,000	$ 125,000
Current portion of long-term debt	-	25,000	25,000
Deferred contributions	420,000	280,000	700,000
	495,000	355,000	850,000
Long-term debt	-	275,000	275,000
	$ 495,000	$ 630,000	$ 1,125,000
Net Assets			
Unrestricted	451,250	17,500	468,750
	$ 946,250	$ 647,500	$ 1,593,750

[15] Paragraph 19(f) of Section 4449 requires the reporting entity to disclose during the reporting period in which the merger takes place a summary of the principal components of the comparative period's statement of financial position and statement of operations for each party to the merger. The illustrative disclosure in this *Briefing* includes all financial statement line items in each entity's statement of financial position; however, this information could also be summarized into fewer line items depending on the needs of the users of the financial statements of the reporting entity (e.g., current assets, current liabilities, non-current liabilities and net assets in this case).

The principal components of the combined statement of operations for the year ended March 31, 2022[16] are as follows:

Combined statement of operations Year ended March 31, 2022	Organization	Foundation	Combined
Revenues			
City of Richmond Hill	$ -	$ 105,000	$ 105,000
City of Vaughan	157,500	-	157,500
Ministry of Children, Community and Social Services	126,000	84,000	210,000
Donations	58,500	39,000	97,500
Change in fair value of marketable securities	(2,500)	(5,000)	(7,500)
	$ 339,500	$ 223,000	$ 562,500
Expenses			
Program costs	$ 286,500	$ 191,000	$ 477,500
Administrative expenses	45,000	30,000	75,000
Fundraising costs	3,000	2,000	5,000
Professional fees	10,800	7,200	18,000
	$ 345,300	$ 230,200	$ 575,500
Deficiency of revenues over expenses	$ (5,800)	$ (7,200)	$ (13,000)

As a result of the merger, an adjustment was made to the financial position and results of operations of the Foundation to align its accounting policies with those of the Organization with respect to accounting for investments in marketable securities consisting of investments in mutual funds. In previous periods, the Foundation subsequently measured such investments at amortized cost. However, as a result of the requirement to align the accounting policies of all of the entities subject to the combination, the Foundation's investments in marketable securities are now subsequently measured at fair value each period. The impact of this adjustment was the recognition of an unrealized gain of $8,500 (2022 – unrealized loss of $5,000) within the change in fair value of marketable securities in the combined statement of operations and changes in net assets for the year ended March 31, 2023, and an increase in marketable securities and net assets of $23,500 (2022 – $15,000) in the combined statement of financial position as at March 31, 2023.

[16] Paragraph 19(f) of Section 4449 requires the reporting entity to disclose during the reporting period in which the merger takes place a summary of the principal components of the comparative period's statement of financial position and statement of operations for each party to the merger. The illustrative disclosure in this *Briefing* includes all financial statement line items in each entity's statement of operations; however, this information could also be summarized into fewer line items depending on the needs of the users of the financial statements of the reporting entity (e.g., revenues, expenses and excess of revenues over expenses in this case).

Scenario B: The Combination Is Accounted for As an Acquisition – The Acquirer Consolidates Its Controlled NFPOs Subsequent to Initial Recognition

Criteria for recognition as an acquisition

In this scenario, assume all Five Criteria necessary for this combination to be accounted for as a merger have not been met. Accordingly, this combination will be accounted for as an acquisition:

- In its press release announcing the combination, the Organization indicated it had acquired the operations of the Foundation and planned to expand on those operations to more areas in the Greater Toronto Area. The terms of the combination agreement provide the Organization with the right to appoint eight of the 10 members of the Foundation's board of directors.
- Cash flow projections for the Foundation indicated it would have difficulty repaying its long-term debt in the coming years, which caused concern for its funders. As a result, its lenders requested the Foundation to obtain alternate financing or combine with another entity in order to ensure the debt could be serviced. As part of the negotiation of the terms of the combination, those charged with governance of the Foundation did not participate in establishing the governance and management structures of the combined organization and in selecting management personnel.
- No consideration flowed to a third party as a result of the combination.
- The purpose of the combined organization will encompass the purposes of both the Foundation and the Organization.
- At the combination date, there has been no significant decline nor is there a planned significant decline in the client communities served by either the Foundation or the Organization. No programs or services will be reduced; the objective of the combination is actually to increase the programs and services offered by the combined organization through an increase in the resources available.

Applying the acquisition method

Step 1: Identifying the acquirer

The first step in applying the acquisition method is to determine the acquirer. The acquirer is defined as the NFPO that acquires control of the acquiree. One organization is presumed to control another entity when it has the right to appoint the majority of the voting members of the other entity's board of directors. In this case, as a result of the combination, the Organization was given the ability to appoint eight of the 10 directors of the Foundation. Accordingly, the Organization controls the Foundation and is therefore the acquirer; the Foundation is the acquiree.

Step 2: Determining the combination date

The second step in applying the acquisition method is to determine the combination date. The combination date is defined as the date on which a NFPO acquires (i.e., obtains control of) one or more NFPOs. In this case, the combination agreement was signed on October 1, 2022. This agreement gives the Organization the right to elect the majority of the members of the board of directors of the Foundation. Accordingly, October 1, 2022 is the combination date for the purpose of accounting for the acquisition.

Step 3: Recognizing and measuring the identifiable assets acquired and the liabilities assumed in the acquiree

Additional Background Information

The carrying value and corresponding fair value of each of the net identifiable assets acquired and liabilities assumed as at October 1, 2022 is as follows:

Net identifiable assets acquired and liabilities assumed As at October 1, 2022		**Carrying Value**		**Fair Value**		**Adjustment**	**Notes**
Cash and cash equivalents	$	420,000	$	420,000	$	-	
Marketable securities		90,000		110,000		20,000	1
Accounts receivable		12,000		12,000		-	
Inventory		120,000		126,000		6,000	2
Prepaid expenses		4,500		4,500		-	
Intangible assets		-		15,000		15,000	3
Capital assets		-		30,000		30,000	4
Accounts payable and accrued liabilities		(65,000)		(100,000)		(35,000)	5
Deferred contributions		(278,500)		(278,500)		-	
Long-term debt		(292,500)		(275,000)		17,500	6
	$	10,500	$	64,000	$	53,500	

A description of each of the adjustments above is as follows:

1. Marketable securities were previously subsequently measured at amortized cost in the financial statements of the Foundation. As at October 1, 2022, the fair value of the marketable securities was $20,000 more than their carrying amount.
2. Inventory consisted of some food items the Foundation was able to purchase at a discount. Accordingly, their fair value is higher than their carrying amount by $6,000.
3. The founder of the Foundation is a prominent citizen in Richmond Hill and has operated the Foundation for approximately 50 years. Accordingly, the Foundation has a very positive reputation; its trade name, which is not recognized in the financial statements

of the Foundation, has a fair value of $15,000. The Foundation also has strong donor relationships, as evidenced by the substantial recurring donations from members of the Richmond Hill community. However, as described above in this *Briefing*, the acquirer is precluded from recognizing donor or membership relationships of the acquiree.

4. As at October 1, 2022, the Foundation owned capital assets with a fair value of $30,000. These capital assets had previously been expensed because the Foundation met the exemption in Section 4433 to expense tangible capital assets when acquired. As explained below, this exemption will no longer be met after the combination and therefore these capital assets will need to be recognized and measured at their fair value at the acquisition date. Subsequent to the date of combination, the combined organization acquired $10,000 in capital assets, which were previously recognized in program costs.
5. As described above in the comprehensive example, the Foundation has disclosed a contingent liability in its financial statements due to a lawsuit against it by a former employee for wrongful dismissal. The Foundation had not recognized a contingent liability in its financial statements as it was not likely that a future event would confirm a liability had been incurred at the date of the financial statements. However, on October 1, 2022, it was determined that a present obligation arising from a past event exists and that the $35,000 fair value of this contingent liability can be measured reliably. Accordingly, a liability for the contingency related to the wrongful dismissal of $35,000 will be recognized at the acquisition date within accounts payable and accrued liabilities.
6. The long-term debt held by the Foundation has a lower interest rate than the current market rate. Accordingly, the fair value of this debt is less than its carrying value by $17,500.

As described above in the comprehensive example, both combining entities applied the exemption in Section 4433 to expense tangible capital assets when acquired. Accordingly, an assessment must be made as to whether this exemption will be met for the combined organization going forward, which will determine whether the capital assets (and intangible assets since a similar exemption is included in Section 4434) of the acquiree will have to be recognized at their fair values at the acquisition date.

Based on the financial information provided above, the combined revenue of the Foundation and the Organization was $567,500 for the year ended March 31, 2022. Accordingly, the average of annual revenues recognized in the statement of operations for the preceding period for the combining entities exceeds the $500,000 threshold. As a result, the exemption in Section 4433 no longer applies and the capital assets and intangible assets of the acquiree must be recognized at their fair values as at the date of the acquisition. If this threshold had not been met, the capital assets and intangible assets included in the chart above would not have been recognized.

Consolidated statement of financial position at the combination date

Based on the information above, the consolidated statement of financial position of Vaughan Centre for Student Success as at October 1, 2022, the combination date, is as follows:

Vaughan Centre for Student Success Consolidated Statement of Financial Position As at October 1, 2022	Organization	Foundation	Adjustments	Consolidated
Assets				
Current				
Cash and cash equivalents	$ 630,000	$ 420,000	$ -	$ 1,050,000
Marketable securities	135,000	90,000	20,000	245,000
Accounts receivable	18,000	12,000	-	30,000
Inventory	180,000	120,000	6,000	306,000
Prepaid expenses	6,750	4,500	-	11,250
	969,750	646,500	26,000	1,642,250
Intangible assets	-	-	15,000	15,000
Capital assets	-	-	30,000	30,000
	$ 969,750	$ 646,500	$ 71,000	$ 1,687,250
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 97,500	$ 65,000	$ 35,000	$ 197,500
Current portion of long-term debt	-	25,000	(1,500)	23,500
Deferred contributions	406,500	278,500	-	685,000
	504,000	368,500	33,500	906,000
Long-term debt	-	267,500	(16,000)	251,500
	$ 504,000	$ 636,000	$ 17,500	$ 1,157,500
Net Assets				
Unrestricted	465,750	10,500	53,500	529,750
	$ 969,750	$ 646,500	$ 71,000	$ 1,687,250

Note that the adjustments to the consolidated statement of financial position of Vaughn Centre for Student Success are explained above in the "Additional Background Information" section of Scenario B of the comprehensive example.

Step 4: Excess of consideration transferred or a bargain purchase

As at the acquisition date, the acquirer needs to determine the acquisition-date fair value of the consideration transferred and the net-of-the-acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with Section 4449. As described above in the comprehensive example, because no consideration was transferred in the combination, the fair value of the consideration transferred is $Nil.

Also as described above in the comprehensive example, the net-of-the-acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with Section 4449 is $64,000. Accordingly, this difference needs to be recognized and presented separately in the statement of changes in net assets. Since the difference is a net credit, it results in an increase in net assets as shown in the consolidated statement of operations and changes in net assets below.

The consolidated statement of operations and changes in net assets of the combined organization for the year ended March 31, 2023, with comparative figures for the year ended March 31, 2022, is as follows:

Vaughan Centre for Student Success Consolidated Statement of Operations and Changes in Net Assets Year ended March 31, 2023	**Organization**	**2023 Foundation**	**2023 Adjustments**	**Consolidated**	**2022 Organization**
Revenues					
City of Richmond Hill	$ -	$ 57,500	$ -	$ 57,500	$ -
City of Vaughan	172,500	-	-	172,500	157,500
Ministry of Children, Community and Social Services	139,500	46,500	-	186,000	126,000
Donations	60,000	20,000	-	80,000	58,500
Change in fair value of marketable securities	7,500	-	3,500	11,000	(2,500)
	$ 379,500	$ 124,000	$ 3,500	$ 507,000	$ 339,500

Vaughan Centre for Student Success Consolidated Statement of Operations and Changes in Net Assets Year ended March 31, 2023	Organization	2023 Foundation	2023 Adjustments	Consolidated	2022 Organization
Expenses					
Program costs	$ 291,000	$ 97,000	$ (4,000)	$ 384,000	$ 286,500
Administrative expenses	43,650	14,550	-	58,200	45,000
Fundraising costs	2,850	1,200	-	4,050	3,000
Professional fees	11,250	3,750	-	15,000	10,800
Amortization	-	-	4,000	4,000	-
	$ 348,750	$ 116,500	$ -	$ 465,250	$ 345,300
Excess (deficiency) of revenues over expenses	30,750	7,500	3,500	41,750	(5,800)
Net assets – beginning of the year	451,250	-	-	451,250	457,050
Bargain purchase on acquisition	-	-	64,000	64,000	-
Net assets – end of the year	$ 482,000	$ 7,500	$ 67,500	$ 557,000	$ 451,250

A description of each of the adjustments above is as follows:

- The starting point for the consolidated statement of operations and net assets for the year ended March 31, 2023 is the statements of operations and net assets of the Organization for the year ended March 31, 2023 and of the Foundation for the period from October 1, 2022 to March 31, 2023 (i.e., the period subsequent to the combination).
- As described above in the comprehensive example, prior to the combination, the Foundation subsequently measured its investments in marketable securities at amortized cost. The combined entity has made the accounting policy choice to subsequently measure its investments in marketable securities at fair value. Accordingly, the change in fair value for the period from October 1, 2022 to March 31, 2023 of $3,500 must be recognized in the consolidated financial statements.

- The adjustment to program costs consists of two components:
  - a $6,000 increase in program costs due to the corresponding increase in the cost of food inventory to its fair value at the combination date, which was expensed during the period from October 1, 2022, to March 31, 2023
  - a $10,000 reduction in program costs due to the capitalization of capital assets acquired by the Foundation subsequent to the combination
- Due to the recognition of the capital assets of the Foundation at the acquisition date as well as the additional capital assets acquired by the Foundation subsequent to the combination, amortization of $4,000 was recognized for the period from October 1, 2022 to March 31, 2023. The trade name was determined to have an indefinite useful life and, accordingly, is not being amortized.
- A bargain purchase on the acquisition was recognized directly in net assets for the difference between the consideration transferred of $Nil and the fair value of the net assets acquired, which was $64,000 (as indicated above in the comprehensive example).

Note that there is no adjustment required for the transaction costs relating to the acquisition as these costs have been expensed by each entity within professional fees. In accordance with Section 4449, the acquirer accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services received.

Measurement period adjustment

In the example above, the fair value of the Foundation's trade name at the acquisition date was known before the end of the reporting period (i.e., during the year ended March 31, 2023). If, however, the combination had occurred closer to March 31, 2023 (e.g., on March 28, 2023), the final determination of the fair value of the trade name might not have been completed before the end of the reporting period. As a result, based on the guidance included in Section 4449, the combined entity would report a provisional amount for the fair value of the trade name.

The final determination of the fair value of the trade name would likely be completed during the beginning of the year ended March 31, 2024. The Organization would need to make adjustments to the provisional amount recorded for the trade name as a result of the final determination of its fair value. If, for example, the final fair value of the trade name was determined to be $25,000 rather than $15,000, then in its consolidated financial statements for the year ended March 31, 2024, the Organization would have to increase the value of the trade name in the comparative figures in the consolidated statement of financial position (i.e., in the consolidated statement of financial position as at March 31, 2023 as shown in the consolidated financial statements for the year ended March 31, 2024).

In addition, since the fair value of the trade name has a corresponding impact on the bargain purchase recognized, the other side of this adjustment would be to increase the bargain purchase recognized in the comparative figures in the consolidated statement of operations and changes in net assets (i.e., the consolidated statement of operations and changes in net assets for the year ended March 31, 2023 as shown in the consolidated financial statements for the year ended March 31, 2024).

Disclosure of the acquisition

The following is a sample disclosure of the acquisition in the consolidated financial statements of the Organization for the year ended March 31, 2023:

X. Combination

On October 1, 2022, the Organization acquired E. Rose Foundation (the Foundation), a not-for-profit organization whose primary purpose is to raise and disburse funds in support of educational and enrichment activities within the City of Richmond Hill, particularly through its student nutrition program which aims to provide meals and snacks to elementary school students in need. The primary reason for the combination was to consolidate and streamline the operations of the two combining entities such that afterschool and nutritional programs could be provided in the cities of Richmond Hill and Vaughan, and to other communities in need in the Greater Toronto Area. There was no consideration transferred in the acquisition.

This combination has been accounted for as an acquisition in accordance with Section 4449, *Combinations by Not-for-Profit Organizations* of Canadian Accounting Standards for Not-for-profit Organizations and, accordingly, the results of operations from October 1, 2022 have been included in the consolidated financial statements of the Organization.

The amounts recognized for the assets acquired and liabilities assumed at the acquisition date are as follows:

Net assets acquired		**Amount recognized**
Cash and cash equivalents	$	420,000
Marketable securities		110,000
Accounts receivable		12,000
Inventory		126,000
Prepaid expenses		4,500
Intangible assets		15,000
Capital assets		30,000
Accounts payable and accrued liabilities		(100,000)
Deferred contributions		(278,500)
Long-term debt		(275,000)
	$	64,000

The $64,000 difference between the consideration transferred of $Nil and the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed of $64,000 has been recognized as a direct increase in net assets in the consolidated statements of operations and changes in net assets for the year ended March 31, 2023.

Comparing the Merger and the Acquisition

Combined/consolidated statement of financial position at the date of combination

Based on the information above, a comparison of the combined/consolidated statement of financial position of the combining entities as at October 1, 2022 (i.e., the combination date) when the combination is accounted for as a merger versus an acquisition is as follows:

E. Rose Foundation for Student Success Combined/Consolidated Statement of Financial Position As at October 1, 2022	Acquisition	Merger	Difference
Assets			
Current			
Cash and cash equivalents	$ 1,050,000	$ 1,050,000	$ -
Marketable securities	245,000	245,000	-
Accounts receivable	30,000	30,000	-
Inventory	306,000	300,000	6,000
Prepaid expenses	11,250	11,250	-
	1,642,250	1,636,250	6,000
Intangible assets	15,000	-	15,000
Capital assets	30,000	-	30,000
	$ 1,687,250	$ 1,636,250	$ 51,000
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 197,500	$ 162,500	$ 35,000
Current portion of long-term debt	23,500	25,000	(1,500)
Deferred contributions	685,000	685,000	-
	906,000	872,500	33,500
Long-term debt	251,500	267,500	(16,000)
	$ 1,157,500	$ 1,140,000	$ 17,500
Net Assets			
Unrestricted	529,750	496,250	33,500
	$ 1,687,250	$ 1,636,250	$ 51,000

An explanation of each of the differences identified above is as follows:

- Inventory is recognized at its fair value as at the acquisition date in a combination accounted for as an acquisition but it is measured at its carrying amount (i.e., the lower of its cost or net realizable value) in a combination accounted for as a merger. In this case, the fair value of the inventory was $6,000 higher than its carrying value at the acquisition date.
- As described above in the comprehensive example, after the combination, the revenue threshold is exceeded such that the combined entity cannot use the exemption in Sections 4433 and 4434 to expense tangible capital assets and intangible assets when acquired. In the merger, the combined entity chose to apply this accounting policy choice on a prospective basis (i.e., only tangible capital assets and intangible assets acquired after the combination date are required to be capitalized). In the acquisition, however, the failure to meet this exemption resulted in a requirement to recognize any tangible capital assets or intangible assets owned by the acquiree at the date of the acquisition at their acquisition-date fair value. This resulted in the recognition of tangible capital assets of $30,000 and intangible assets of $15,000 at the acquisition date.
- At the combination date, an unrecorded contingent liability existed in the financial statements of the Foundation as a result of a wrongful dismissal lawsuit against the Foundation by a former employee. The Foundation had not recognized a contingent liability in its financial statements as, in the opinion of those charged with governance, it was not likely that a future event would confirm a liability had been incurred at the date of the financial statements (i.e., the recognition criteria in Section 3290 were not met). However, on October 1, 2022, it was determined that a present obligation arising from a past event exists and that the $35,000 fair value of this contingent liability could be measured reliably. Accordingly, based on the recognition criteria of Section 4449, a liability for this contingency was recognized at the acquisition date. When the combination is accounted for as a merger, this contingent liability is not recognized since the recognition criteria in Section 3290 are still not met.
- The long-term debt was revalued to its fair value at the combination date in the acquisition but remained at its carrying value in the merger.
- The difference between ending net assets in the two scenarios is comprised of three components:
    - In both the merger and the acquisition, the marketable securities were revalued to their fair value at the combination date. The rationale for each revaluation, however, was different. In the merger, the marketable securities were revalued to fair value in order to align the accounting policies of the combining entities. In the acquisition, however, the marketable securities were measured at their fair value at the acquisition date consistent with the other identifiable assets acquired in the

combination. Although this does not result in a difference between the net assets of the combined entity in the merger versus the acquisition, it is important to note the differing reasons for the same adjustment in each scenario.

- In the acquisition, a bargain purchase was recognized for $64,000, which corresponds to the fair value of the net assets acquired at the acquisition date since there was no consideration transferred in the combination. No such adjustment was recognized in the merger scenario as the assets acquired and liabilities assumed are measured at their carrying values. The $64,000 gain on the bargain purchase, however, includes the $20,000 revaluation of the marketable securities to their fair value at the acquisition date. The $20,000 is also included in net assets in the merger scenario. Accordingly, this results in a net increase in net assets of $44,000 from the merger scenario to the acquisition scenario.
- The Foundation's net assets of $10,500 that existed at the acquisition date must be removed in the acquisition scenario. These net assets are not removed in the merger scenario since the combined entity presents comparative information showing the combined results of periods prior to the combination as though the entities had always been combined. Accordingly, the combined net assets in the merger scenario include $10,500 in pre-acquisition net assets not included in consolidated net assets in the acquisition scenario.

Combined/consolidated statements of operations and changes in net assets

Based on the information above, a comparison of the combined/consolidated statement of operations and changes in net assets for the years ended March 31, 2023 and 2022 when the combination is accounted for as a merger versus an acquisition is as follows:

E. Rose Foundation for Student Success Combined/ Consolidated Statement of Operations and Changes in Net Assets Year ended March 31, 2023	Acquisition	2023 Merger	Difference	Acquisition	2022 Merger	Difference
Revenues						
City of Richmond Hill	$ 57,500	$ 115,000	$ (57,500)	$ -	$ 105,000	$ (105,000)
City of Vaughan	172,500	172,500	-	157,500	157,500	-
Ministry of Children, Community and Social Services	186,000	232,500	(46,500)	126,000	210,000	(84,000)
Donations	80,000	100,000	(20,000)	58,500	97,500	(39,000)
Change in fair value of marketable securities	11,000	16,000	(5,000)	(2,500)	(7,500)	5,000
	$ 507,000	$ 636,000	$ (129,000)	$ 339,500	$ 562,500	$ (223,000)
Expenses						
Program costs	$ 384,000	$ 475,000	$ (91,000)	$ 286,500	$ 477,500	$ (191,000)
Administrative expenses	58,200	72,750	(14,550)	45,000	75,000	(30,000)
Fundraising costs	4,050	4,750	(700)	3,000	5,000	(2,000)
Professional fees	15,000	18,750	(3,750)	10,800	18,000	(7,200)
Amortization	4,000	1,000	3,000	-	-	-
	$ 465,250	$ 572,250	$ (107,000)	$ 345,300	$ 575,500	$ (230,200)
Excess (deficiency) of revenues over expenses	41,750	63,750	(22,000)	(5,800)	(13,000)	7,200
Net assets – beginning of the year	451,250	463,750	(12,500)	457,050	476,750	(19,700)
Bargain purchase on acquisition	64,000	-	64,000	-	-	-
Net assets – end of the year	$ 557,000	$ 527,500	$ 29,500	$ 451,250	$ 463,750	$ (12,500)

As can be seen from the schedule above, there are a lot of differences between the combined/consolidated statement of operations and changes in net assets of the combining entities when the combination is accounted for as a merger versus an acquisition. The primary differences are as a result of the following:

- In the merger scenario, the combined statement of operations and changes in net assets is prepared as if the two entities had always been combined. Accordingly, the comparative figures include the results of operations of both entities, and the figures for the year ended March 31, 2023 include the results of operations of the Foundation for the entire year. In the acquisition scenario, the comparative figures include only the results of operations of the Organization; the figures for the year ended March 31, 2023 include only the results of operations for the Foundation subsequent to the acquisition date.
- The consolidated statement of operations and changes in net assets in the acquisition scenario also includes certain adjustments related to the fair value adjustments made to the assets acquired and liabilities assumed at the acquisition date (e.g., amortization of tangible capital assets, increased program costs due to the increase in the fair value of food inventory at the acquisition date, etc.). Refer to the explanations of the adjustments to the consolidated statement of operations and changes in net assets above in the acquisition scenario of the comprehensive example for full details. No such adjustments are made in the merger scenario.
- In the acquisition scenario, a bargain purchase is recognized directly in net assets for the difference between the consideration transferred in the acquisition of $Nil and the fair value of the net assets acquired. No such amount is recognized in the merger scenario.

Scenario C: The Combination Is Accounted for As an Acquisition – The Acquirer Does Not Consolidate Its Controlled NFPOs Subsequent to Initial Recognition

As described in paragraph 21 of Section 4449, if the Organization chose to disclose its controlled NFPOs in accordance with Section 4450 rather than to consolidate them, the Organization is only required to identify the acquirer, determine the combination date and apply the disclosure requirements of Section 4449.

Criteria for recognition as an acquisition

In this scenario, assume all Five Criteria necessary for this combination to be accounted for as a merger have not been met. Accordingly, this combination will be accounted for as an acquisition:

- In its press release announcing the combination, the Organization indicated it had acquired the operations of the Foundation and planned to expand them to more areas in the Greater Toronto Area. The terms of the combination agreement provide the Organization with the right to appoint eight of the 10 members of the Foundation’s board of directors.

- Funders were concerned that cash flow projections indicated the Foundation would have difficulty repaying its long-term debt in the coming years. As a result, lenders requested the Foundation obtain alternate financing or combine with another entity to ensure the debt could be serviced. As part of the negotiation of the terms of the combination, those charged with governance of the Foundation did not participate in establishing the governance and management structures of the combined organization and in selecting management personnel.
- No consideration flowed to a third party as a result of the combination.
- The purpose of the combined organization will encompass the purposes of both the Foundation and the Organization.
- At the combination date, there had been no significant decline nor any planned significant decline in the client communities served by either the Foundation or the Organization. No programs or services will be reduced; the objective of the combination is actually to increase the programs and services through an increase in the resources available.

Identifying the acquirer

The first step in applying the acquisition method is to determine the acquirer. The acquirer is defined as the NFPO that acquires control of the acquiree. One organization is presumed to control another entity when it has the right to appoint the majority of the voting members of the other entity’s board of directors. In this case, as a result of the combination, the Organization was given the ability to appoint eight of the 10 directors of the Foundation. Accordingly, the Organization controls the Foundation and is therefore the acquirer. The Foundation is thus the acquiree.

Determining the combination date

The second step in applying the acquisition method is to determine the combination date. The combination date is defined as the date on which a NFPO acquires (i.e., obtains control of) one or more NFPOs. In this case, the combination agreement was signed October 1, 2022, and gives the Organization the right to elect the majority of the members of the board of directors of the Foundation. Accordingly, October 1, 2022 is the combination date for the purpose of accounting for the acquisition.

Disclosure of the acquisition

The following is a sample disclosure of the acquisition in the non-consolidated financial statements of the Organization for the year ended March 31, 2023:

X. Combination

On October 1, 2022, the Organization acquired E. Rose Foundation (the Foundation), a not-for-profit organization whose primary purpose is to raise and disburse funds in support of educational and enrichment activities within the City of Richmond Hill, particularly through its student nutrition program which aims to provide meals and snacks to elementary school students in need. The primary reason for the combination is to consolidate and streamline the operations of the two combining entities such that afterschool and nutritional programs can be provided in the cities of Richmond Hill and Vaughan and to other communities in need in the Greater Toronto Area.