Accounting Standards for Business Enterprises No. 20 — Business Combinations

Chapter 1: General Provisions

Article 1

These Standards are formulated in accordance with the *Accounting Standards for Business Enterprises — Basic Standards* to regulate the recognition, measurement, and disclosure of relevant information related to business combinations.

Article 2

A business combination refers to a transaction or event in which two or more separate enterprises are brought together to form a single reporting entity.

Business combinations are classified as either:

1. Business combinations under common control; or
2. Business combinations not under common control.

Article 3

The combination of businesses shall be handled by reference to these Standards.

Article 4

These Standards do not apply to the following types of business combinations:

1. Business combinations in which two or more parties form a joint venture.
2. Business combinations in which two or more separate enterprises are brought together to form a reporting entity solely by contract without any transfer of ownership interests.

Chapter 2: Business Combinations Under Common Control

Article 5

A business combination under common control is one in which all parties involved in the combination are ultimately controlled by the same party or parties both before and after the combination, and such control is not temporary.

In a business combination under common control, the party that obtains control over the other combining entities on the combination date is the combining party, and the other entities involved in the combination are the combined parties.

The combination date is the date on which the combining party effectively obtains control over the combined party.

Article 6

The assets and liabilities acquired by the combining party in a business combination shall be measured at their carrying amounts in the combined party's books on the combination date. Any difference between the carrying amount of the net assets acquired and the carrying amount of the consideration paid (or the total par value of shares issued) shall be adjusted against capital reserve. If the capital reserve is insufficient to absorb the difference, the remaining amount shall be adjusted against retained earnings.

Article 7

If the accounting policies applied by the combined party differ from those of the combining party, the combining party shall adjust the relevant items in the combined party's financial statements in accordance with its own accounting policies on the combination date before applying the recognition requirements of these Standards.

Article 8

Direct costs incurred by the combining party for the business combination, including audit fees, valuation fees, legal service fees, etc., shall be recognized in profit or loss when incurred.

Fees and commissions paid for issuing bonds or assuming other liabilities in connection with the business combination shall be included in the initial measurement amount of the bonds or other liabilities. Fees and commissions incurred in issuing equity securities for the business combination shall be deducted from the proceeds of the equity issuance.

If the proceeds are insufficient to cover such costs, the excess shall be charged against retained earnings.

Article 9

If a business combination results in a parent-subsidiary relationship, the parent shall prepare consolidated financial statements as of the combination date, including a consolidated balance sheet, consolidated income statement, and consolidated cash flow statement.

In the consolidated balance sheet, the assets and liabilities of the combined party shall be measured at their carrying amounts. If adjustments are made due to differences in accounting policies, the adjusted carrying amounts shall be used.

The consolidated income statement shall include the income, expenses, and profits of all combining parties from the beginning of the current period to the combination date. The net profit realized by the combined party before the combination shall be presented as a separate line item in the consolidated income statement.

The consolidated cash flow statement shall include the cash flows of all combining parties from the beginning of the current period to the combination date.

When preparing consolidated financial statements, internal transactions among the combining parties shall be handled in accordance with *Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statements*.

Chapter 3: Business Combinations Not Under Common Control

Article 10

A business combination not under common control is one in which the parties involved are not ultimately controlled by the same party or parties before or after the combination.

In a business combination not under common control, the party that obtains control over the other combining entities on the acquisition date is the acquirer, and the other entities involved in the combination are the acquirees.

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

Article 11

The acquirer shall determine the cost of the combination as follows:

1. For a business combination achieved in a single exchange transaction, the cost of the combination is the fair value of the assets transferred, liabilities incurred, or equity instruments issued by the acquirer to obtain control of the acquiree on the acquisition date.
2. For a business combination achieved in stages through multiple exchange transactions, the cost of the combination is the aggregate of the costs of each individual transaction.
3. Direct costs incurred by the acquirer for the business combination shall also be included in the cost of the combination.
4. If the combination agreement includes contingent consideration that may affect the cost of the combination, the acquirer shall include such amounts in the cost of the combination if it is probable that the contingency will occur and its amount can be reliably measured.

Article 12

On the acquisition date, the acquirer shall measure the assets transferred, liabilities incurred, or equity instruments issued as consideration for the business combination at fair value. Any difference between the fair value and the carrying amount shall be recognized in profit or loss.

Article 13

On the acquisition date, the acquirer shall allocate the cost of the combination and recognize the identifiable assets, liabilities, and contingent liabilities of the acquiree in accordance with Article 14 of these Standards.

1. If the cost of the combination exceeds the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the excess shall be recognized as goodwill.

After initial recognition, goodwill shall be measured at cost less accumulated impairment losses. Impairment of goodwill shall be accounted for in accordance with *Accounting Standards for Business Enterprises No. 8 — Impairment of Assets*.

2. If the cost of the combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall:

   a. Reassess the fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities, as well as the measurement of the combination cost;

   b. If the reassessment confirms that the cost of the combination is still less than the fair value of the acquiree's identifiable net assets, the difference shall be recognized in profit or loss.

Article 14

The fair value of the acquiree's identifiable net assets is the fair value of the acquiree's identifiable assets minus the fair value of its liabilities and contingent liabilities. The acquiree's identifiable assets, liabilities, and contingent liabilities shall be recognized separately if they meet the following conditions:

1. For assets other than intangible assets acquired in the combination, if their economic benefits are probable and their fair value can be reliably measured, they shall be recognized separately at fair value.

   Intangible assets acquired in the combination shall be recognized separately at fair value if their fair value can be reliably measured.
2. For liabilities other than contingent liabilities acquired in the combination, if it is probable that their settlement will result in an outflow of economic benefits and their fair value can be reliably measured, they shall be recognized separately at fair value.
3. For contingent liabilities acquired in the combination, if their fair value can be reliably measured, they shall be recognized separately as liabilities at fair value. After initial recognition, contingent liabilities shall be subsequently measured at the higher of:

   a. The amount that would be recognized under *Accounting Standards for Business Enterprises No. 13 — Contingencies*, or

   b. The initial recognition amount less cumulative amortization recognized in accordance with *Accounting Standards for Business Enterprises No. 14 — Revenue*.

Article 15

If a business combination results in a parent-subsidiary relationship, the parent shall maintain a memorandum record of the fair values of the subsidiary's identifiable assets, liabilities, and contingent liabilities at the acquisition date. When preparing consolidated financial statements, the parent shall adjust the subsidiary's financial statements based on the fair values determined at the acquisition date.

Article 16

If, at the end of the reporting period in which the business combination occurs, the fair value of the identifiable assets, liabilities, and contingent liabilities or the cost of the combination can only be determined provisionally, the acquirer shall account for the business combination based on the provisional amounts.

Adjustments made to provisional amounts within 12 months after the acquisition date shall be treated as if they were made on the acquisition date.

Article 17

If a business combination results in a parent-subsidiary relationship, the parent shall prepare a consolidated balance sheet as of the acquisition date, in which the identifiable assets, liabilities, and contingent liabilities of the acquiree are stated at fair value. The difference between the parent's cost of the combination and its interest in the fair value of the subsidiary's identifiable net assets shall be presented in accordance with the provisions of these Standards.

Chapter 4: Disclosure

Article 18

At the end of the reporting period in which a business combination under common control occurs, the combining party shall disclose the following information in the notes:

1. Basic information about the combining entities.
2. The basis for concluding that the combination is under common control.
3. The basis for determining the combination date.
4. For consideration paid in cash, non-cash assets, or assumed liabilities, the carrying amount of the consideration at the combination date; for equity instruments issued as consideration, the number and pricing principles of the instruments issued, as well as the proportion of voting rights exchanged among the combining parties.
5. The carrying amounts of the combined party's assets and liabilities at the previous balance sheet date and the combination date, as well as the combined party's revenue, net profit, and cash flows from the beginning of the current period to the combination date.
6. Any contingent liabilities of the combined party assumed under the combination agreement.
7. An explanation of adjustments made due to differences in accounting policies between the combining party and the combined party.
8. The carrying amounts and disposal prices of any assets or liabilities of the combined party that have been disposed of or are planned for disposal after the combination.

Article 19

At the end of the reporting period in which a business combination not under common control occurs, the acquirer shall disclose the following information in the notes:

1. Basic information about the combining entities.
2. The basis for determining the acquisition date.
3. The components of the cost of the combination, their carrying amounts, fair values, and the methods used to determine fair values.
4. The carrying amounts and fair values of the acquiree's identifiable assets and liabilities at the previous balance sheet date and the acquisition date.
5. Any contingent liabilities of the acquiree assumed under the combination agreement.
6. The acquiree's revenue, net profit, and cash flows from the acquisition date to the end of the reporting period.
7. The amount of goodwill and the method used to determine it.
8. The amount recognized in profit or loss due to the cost of the combination being less than the fair value of the acquiree's identifiable net assets.
9. The carrying amounts and disposal prices of any assets or liabilities of the acquiree that have been disposed of or are planned for disposal after the combination.

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