Accounting Standards for Enterprises No. 20 - Business Combinations

Cai Kuai [2006] No. 3

Chapter I General Provisions

Article 1With a view to regulating the recognition and measurement of business combinations, and disclosure of relevant information, the present Standards are formulated according to the Accounting Standards for Enterprises-Basic Standards.

Article 2The term "business combinations" refers to a transaction or event bringing together two or more separate enterprises into one reporting entity.

Business combinations are classified into the business combinations under the same control and the business combinations not under the same control.

Article 3The business combinations regarding business operation shall be subject to the present Standard.

Article 4The present Standards does not apply to the following business combinations:

(1)Any business combination in which two or more enterprises form a joint venture;

(2)Any business combination in which two or more separate enterprises are brought together into a reporting entity merely by contract other than ownership shares.

Chapter II Business Combinations under the Same Control

Article 5A business combination under the same control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary.

In a business combination under the same control, the party which obtains control of other combining enterprise(s) on the combining date is the combining party, the other combining enterprise(s) is (are) the combined party.

The "combining date" refers to the date on which the combining party actually obtains control on the combined party.

Article 6The assets and liabilities that the combining party obtains in a business combination shall be measured on the basis of their carrying amount in the combined party on the combining date.

As for the balance between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it (or the total par value of the shares issued), the additional paid-in capital shall be adjusted. If the additional paid-in capital is not sufficient to be offset, the retained earnings shall be adjusted.

Article 7Where, during a business combination under the same control, the accounting policy adopted by the combined party is different from that adopted by the combining party, the combining party shall, according to accounting policy it adopts, adjust the relevant items in the financial statements of the combined party, and shall, pursuant to the present Standard, recognize them on the basis of such adjustment.

Article 8The direct cost for the business combination of the combining party shall, including the expenses for audit, assessment and legal services, be recorded into the profits and losses at the current period.

The bonds issued for a business combination or the handling fees, commissions and other expenses for assuming other liabilities shall be recorded into the amount of initial measurement of the bonds or other debts.
The handling fees, commissions and other expenses for the issuance of equity securities for the business combination shall be credited against the surplus of equity securities; if the surplus is not sufficient, the retained earnings shall be offset.
Article 9Where a relationship between a parent company and a subsidiary company is formed due to a business combination, the parent company shall, on the combining date , prepare a consolidated balance sheet, a profit statement and a cash flow statement.
In the consolidated balance sheet, the assets and liabilities of the combined party shall be measured pursuant to their carrying amount.
If it is necessary to make an adjustment according to the present Standard because the accounting policy adopted by the combined party is different from that adopted by the combining party, the assets and liabilities of the combined party (parties) shall be measured on the basis of the post-adjustment carrying amount.
The consolidated profit statement shall include the incomes, expenses and profits of the combining party incurred from the beginning of the current period to the combining date.
The net profits of the combined party which has been realized prior to the combination shall be reflected through an item separately presented in the profit statement.
The consolidated cash flow statement shall include the cash flow of the parties to the combination from the beginning of the current period to the combining date.
When preparing consolidated financial statements, the internal dealings of the parties to the combination shall be treated according to the Accounting Standards for Enterprises No. 33 - Consolidated Financial Statement.

Chapter III Business Combination Not under the Same Control
Article 10A business combination not under the same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination.
In a business combination not under the same control, the party which obtains the control on other combining enterprise(s) on the purchase date is the acquirer, and other combining enterprise(s) is (are) the acquiree.
The "acquisition date" refers to the date on which the acquirer actually obtains the control on the acquiree.
Article 11An acquirer shall determine the combination costs respectively in light of the following circumstances:
(1)For a business combination realized by a transaction of exchange, the combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree.
(2)For a business combination realized by two or more transactions of exchange, the combination costs shall be the summation of the costs of all separate transactions.

(3)All relevant direct costs incurred to the acquirer for the business combination shall also be recorded into the cost of business combination.

(4)Where any future event that is likely to affect the combination costs is stipulated in the combination contract or agreement, if it is likely to occur and its effects on the combination costs can be measured reliably, the acquirer shall record the said amount into the combination costs.

Article 12The acquirer shall, on the acquisition date, measure the assets given and liabilities incurred or assumed by an enterprise for a business combination in light of their fair values, and shall record the balances between them and their carrying amounts into the profits and losses at the current period.

Article 13The acquirer shall distribute the combination costs on the acquisition date, and shall, according to Article 14 of the present Standards, recognize all identifiable assets, liabilities and contingent liabilities it obtains from the acquiree.

(1)The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation.

The business reputation upon initial measurement shall be measured on the basis of its costs minus the accumulative impairment provisions. The impairment of business reputation shall be treated according to the Accounting Standards for Enterprises No. 8 - Asset Impairment.

(2)The acquirer shall, pursuant to the following provisions, treat the balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree:

(a)It shall reexamine the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination costs;

(b)If, after the reexamination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquiree, it shall record the balance into the profits and losses of the current period.

Article 14The" fair value of the identifiable net assets of the acquiree" refers to the balance of the fair value of the identifiable assets acquired from the acquiree in a business combination minus the fair value of the liabilities and contingent liabilities.

The identifiable assets, liabilities and contingent liabilities which meet the following conditions shall be recognized separately:

(1)As for the assets other than intangible assets acquired from the acquiree in a business combination (not limited to the assets which have been recognized by the acquiree), if the economic benefits brought by them are likely to flow into the enterprise and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values. As for any intangible asset acquired in a combination, if its fair value can be measured reliably, it shall be separately recognized as an intangible asset and shall measured in light of its fair value.

(2)As for the liabilities other than contingent liabilities acquired from the acquiree, if the performance of the relevant obligations are likely to result in any out-flow of economic benefits from the enterprise, and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values.

(3)As for the contingent liabilities of the acquiree obtained in a combination, if their fair values can be measured reliably, they shall separately recognized as liabilities and shall be measured in light of their fair values.

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(a)the amount which shall be recognized according to the Accounting Standards for Enterprises No. 13 - Contingent Events.

(b)the balance of the initially recognized amount minus the accumulative amortization amount which is recognized according to the principle of the Accounting Standards for Enterprises No. 14 - Revenue.

Article 15Where a relationship between a parent company and a subsidiary company is formed due to a business combination, the parent company shall prepare accounting books for future reference, which shall record the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the subsidiary company on the acquisition date.

When preparing consolidated financial statements, it shall adjust the financial statements of the subsidiary company on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

Article 16Where a business combination occurs at the end of the current period, if the fair values of the identifiable assets, liabilities and contingent liabilities acquired in the combination or the cost of the business combination can only be determined temporarily, the acquirer shall recognize and measure the business combination on the basis of the temporarily determined values.

Where an adjustment is made to the temporarily determined values within 12 months after the acquisition date, it shall be deemed as the recognition and measurement on the acquisition date.

Article 17Where a relationship between a parent company and a subsidiary company is formed due to a business combination, the parent company shall prepare a combined balance sheet on the acquisition date, which shall present the identifiable assets, liabilities and contingent liabilities acquired in the combination at their fair values.

As for the balance between the combination cost of the parent company and the fair value of the identifiable net assets it obtains from the subsidiary company, it shall present the result of the treatment according to the present Standards.

Chapter IV Disclosure

Article 18Where a business combination occurs at the end of the current period, the combining party shall, in its notes, disclose the following information related to the business combination under the same control:

(1)the basic information on the combining enterprises;

(2)the grounds for the judgment of the business combination under the same control;

(3)the basis for the determination of the combining date;

(4)Where the consideration for the combination is the cash paid, the non-cash assets transferred and the liabilities assumed, it shall disclose the carrying amount of the consideration on the combining date.

Where equity securities are issued as consideration for the combination, it shall disclose the number of the equity securities issued during the combination, the pricing principle as well as the proportion of the shares with voting power exchanged by the parties to the combination;

(5)The carrying amounts of the assets and liabilities of the combined party on the balance sheet date of the prior accounting period as well as on the combining date; the information on the revenue, net profits and cash flow of the combined party from the beginning of the current period, in which the combination occurs, to the combining date;

(6)the information on the contingent liabilities of the combined party to be assumed according to the stipulations of the combination contract or agreement;

(7)an explanation on the adjustment made because the accounting policy adopted by the combined party is different from that adopted by the combining party; and

(8)the carrying amount or disposal price of the combined party's assets or liabilities which have been disposed of or are to be disposed of.

Article 19Where a business combination occurs at the end of the current period, the acquirer shall, in its notes, disclose the following information on the business combination not under the same control:

(1)the basic information on the combining enterprises;

(2)the basis for the determination of the acquisition date;

(3)the composition, carrying amount and fair value of the combination costs, as well as the method for the determination of the fair value thereof;

(4)the carrying amounts and fair values of the identifiable assets and liabilities of the acquiree on the balance sheet date of the previous accounting period as well as on the acquisition date

(5)the information on the acquiree's contingent liabilities to be assumed according to the stipulations of the combination contract or agreement;

(6)the information on the revenues, net profits and cash flow of the acquiree from the acquisition date to the end of the reporting period

(7)the amount of business reputation and the determination method adopted;

(8)the amount which is recorded into the profits and losses of the current period because the combination cost is smaller than the fair value of the identifiable net assets acquired from the acquiree in the business combination;

(9)the carrying amount or disposal price of the acquiree's assets or liabilities which have been disposed of or are to be disposed of.

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