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The International Debate of Business Combination in Public Sector: The Role of IPSAS 40

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Abstract
Practice and Academy have recently involved in the accounting of business combination in the public sector representing a debated topic at national and international levels; in part, by reason of the reorganization action being aimed at rationalizing the public expenditure, on the other hand due to the logic (always in the key resource optimization) modification of territorial composition of territorial entities, as is happening in many countries with the merger of the municipalities. The contribution is based on a critical analysis of the content of IPSAS 40 providing all the approaches for accounting recognition of business combination in public sectors in order to assess whether IPSASB will determine a higher harmonization in this field. In this context, IPSASB has positively orientated the efforts towards the definition of an accepted accounting policy.
Keywords: IPSAS 40, Public Sector, Business Combination, Conceptual paper

1. Introduction

The present article shows the accounting solution to the problem given by the International Public Sector Accounting Standards Board (IPSASB) with the IPSAS 40, Public Sector Combinations and compares it with some local approaches (Grossi and Soverchia, 2011; Brusca et al., 2013; Bergmann et al., 2016).

The theme of combinations was a topic particularly debated by the IPSASB in recent years, started in 2009 with the publication on the part of the International Federation of Accountants, under whose aegis IPSASB operates, of the Exposure Draft (ED) 41, the Entity Combinations from Exchange Transactions, in the context of the process of convergence with IFRSs and, in the specific case, with IFRS 3 Business Combinations[1].

The document of the IASB was, however, not considered (at least integrally) repeatable in the context of public administrations. For this reason, IFAC published in 2012 the Consultation Paper, Public Sector Combinations, to collect observations. Following such publication, the ED 60, Public Sector Combinations, was issued in 2016. At last, at the beginning of 2017, the IFAC published the IPSAS 40, Public Sector Combinations.

The final version reflects some significant changes reflecting a diagram of two processes applied by the IPSASB. The document will enter in force with operations, which will take place from 1st January 2019, along with the possibility of also adopting the provisions in advance (early adoption).

The present contribution focuses on some significant sections to the IPSAS 40, returning to the reading of the principle for a more exhaustive examination and indicating only in certain limited circumstances the adjustments made to the draft of reference. The issue concerns public sector entities, which reported its activity in accordance with IPSAS articulated on the accrual principle (*accrual data Basis of Accounting*).

In this study, we provide an analysis on the basis of a comparison of legal requirements and standards of Business Combinations between the UK and US setters (the UK HM Treasury and the US Gasb 69) adopting the IPSAS as a benchmark. This is in line with several studies investigating the conceptual framework of accounting combinations/aggregation among public sector entities (Bergmann et al., 2016; Christiaens et al., 2010; Grossi and Pepe, 2009).

2. Classification in the literature

It is appropriate to distinguish the broad meaning, which the expression "*business combination*" assumes in corporate literature with specific reference to the public sector, from the same concept received more narrowly in the accounting field, and especially in the IPSASs. In the academic literature, the role of the business combination in the public sector has received particular attention within the studies focusing on local public administration (Sorensen, 2006; Bhatti and Hansen, 2010), at the level of the health care system (Van Reine, 2006) and education (Lang, 2002). The impact of globalization has embarked a process of restructuring within the public sector, in particular of aggregations among different entities. Organizational changes of the public sector have led to increased decentralization of public services. According to Bergmann et al. (2015),

[1] The reasons for potential inapplicability of IFRS 3 to the reality of combinations of public sector entities have been indicated as: the different purposes with which these operations are carried out; the evidence that aggregations in the private sector are so onerous, while in the public sector they take place free of charge or, in any case, without consideration; the consideration that aggregations of private sector originate in a voluntary way, while in the public sector they can be requested by legislative acts.

consolidated financial statements can be used to enhance accountability and transparency towards internal and external stakeholders. The above authors provided an analysis making a comparison of legal requirements and standards for consolidation, and the published consolidated financial statements, adopting the IPSAS as a benchmark. Numerous studies have focused on the development of a conceptual framework concerning the combinations/aggregation of public sector entities, analyzing factors, which induce the governmental entities towards these transactions. The process of restructuring of the public sector has encouraged numerous authors to investigate the types of inter-institutional relations (Koney and Bailey, 2000; Lang, 2002); in particular, some contributions have emphasized the role of internal and external factors, which have pushed the public administrations to carry out operations of aggregation (Gray and Wood, 1991; Koney and Bailey, 2000; Campbell, 2009, Bhatti and Hansen, 2010). Gray and Wood (1991) have argued that the need for aggregation of public administrations is drawn from six theoretical perspectives: resource interdependence, social responsibility, strategic enhancement, environmental validity, operational efficiency and domain influence. The contribution of Mitu and Tudor (2013) has led to the following result: the restructuring of the public sector, which has occurred in recent years has resulted in a series of combinations between entities, causing confusion. Therefore, the globalization process mentioned above has created many uncertainties in the conceptualization of aggregations/combinations of the public sector. According to one broad meaning, "*business combinations*" define all the business events, which form a union between two or more economic entities through the transfer of one of them to the heritage of the other or through the creation of one or more new entities that will merge the assets of the individual entity aggregated. A similar concept of "Business combination" includes extraordinary operations carried out both between independent parties concerning the subject "*under common control*", i.e. entities already belonging to the same group. That feature is crucial from an accounting perspective, as many standard setters -and IPSASB among them- address combinations between public sector entities as combinations under common control. In another meaning even broader, the business combination may be extended to any form of "*business combination is also realized by means of agreements between undertakings aimed to harmonize aspects of their management regarding the commercial area, that is technical-productive or, more rarely, organizational aspects*" (Sarcone, 1993, p.6). Finally, Santis et al. (2018) provided a deep review and analysis of the literature on consolidated financial statements (CFS) in the public sector published from 1980 to 2015 in public sector journals by tracking future directions.

3. The scope

The scope of the IPSAS 40 is contextualized within the framework of reference, rather large. A public sector combination consists in "bringing together" separate entities into a single entity of the public sector (IPSAS 40, para.5). Although simple and linear, the above sentence leaves space for some considerations. At first, it seems evident from the cases considered in the Illustrative Examples, which fall within the scope of the principle also, for example, the combination between a company (or an entity, not lucrative) and a public sector entity, where the resulting entity is a public body. That said, it is evident that this provision can also suffer due to the statutory provisions and legal systems of the individual legal systems, which implement IPSAS. It is recalled that IPSASB has no legislative powers on local regulators and that IPSASs are exquisitely technical. It is the responsibility of the authorities having legislative power and regulators to define whether and how to apply IPSASs. In a case where, for example, a not-for-profit organization (NPO) is embodied by a public sector entity, the resulting entity is a public entity and therefore the operation follows the provisions of the IPSAS 40, if these bodies obviously require the adoption of the documents of the IPSASB. Moreover, IPSASB seeks to bring together separate operations, where "operation" means an integrated set of operations (with the related assets and liabilities) capable of being managed to pursue the purposes of the entity providing goods and/or services (IPSAS 40, par.5). The aggregation not necessarily involves the generation of a new entity in the sense that the institution, which arises from the operation does not necessarily has an economic substance different in its components with respect to the combination of the individual apparatuses. Examples of combinations in the public sector can be:

- nationalization;
- restructuring of ministries;
- rearrangements of the local bodies;
- transfers of assets by an institution to another.

Therefore, they do not constitute “real” combinations of assets (or liabilities) or groups of assets and liabilities, where we do not have a synergistic organization of goods (not representative, then, of entities). In the case in which there is a transfer of a group of elements, which are not representative of an entity, accounting for individual operations is carried out by applying the relevant provisions contained in the specific principles. Due to the aforesaid reason, the crucial principle distinguishes between accounting purposes provided as:

1. ***Amalgamation***, wherein:

- a combination in which none of the parties involved in the transaction obtains control of one or more operations;

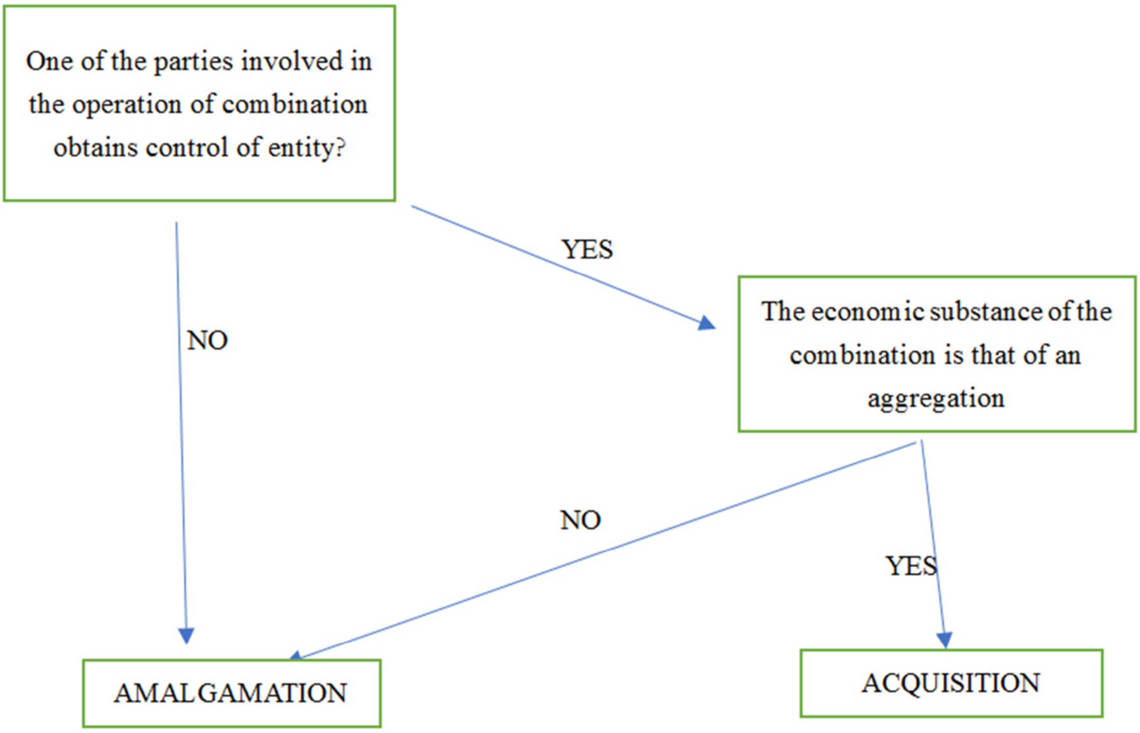
- a combination in which a party involved in the operation obtains control of one or more operations and there is evidence that the combination determines substantially a new entity.

2. ***Acquisition***, intended as a combination in which a party involved in the operation obtains control of one or more operations and there is evidence that the combination has the economic substance of an amalgamation.

It is quite clear that the existence of the control guides the accounting path to apply. For this reason, the analysis of the existence of the control appears, beyond preliminary, as also extremely delicate. In substance, the classification of an operation as acquisition requires the identification of an acquirer. The references to consider if an institution holds the control on a business are available from the IPSAS 35, Consolidated financial statements. An institution has control of a company if it obtains:

- the power on business
- exposure to bonds and the benefits arising from involvement in the business
- the possibility to use the power on the business to condition the nature or amount of the benefits arising from involvement in the business (IPSAS 35, para. 20 and IPSAS 41, par. AG11)

Figure 1. IPSAS 40 – Union and Acquisition



The identification of the “economic substance” of the transaction, in the specific case of combinations in the public sector, is on the contrary a new concept, also for IPSASs. The following table shows some of the indicators IPSASB provides to express an opinion on this matter, as well as indicators, which indicate that the economic substance of the transaction is an amalgamation or an acquisition.

In principle, it can be observed that the “indicators relating to consideration” tend to certify whether the operation has a contract in the perspective that acquisitions result in most cases as a consideration, which is attributable to the net assets transferred. The consideration paid, if not justifiable differently, (for example, for covering costs), should represent the value attributed to the entity (eg, a participation) acquired with the operation. If this is confirmed by the economic substance of the transaction, the aggregation is qualifiable as acquisition.

The "indicators related to the decision-making process" are then oriented to understand whether the operation is "willed" or "suffered", starting from the assumption that acquisitions are generally voluntary operations.

In most cases, also in view of the immense casuistry that one can submit, indicators, represent the presumptions related, and not absolute, with the absence or presence of a final controller. The circumstances must therefore be individually examined and evaluated. Still, one can highlight that the indicators referred to in paragraphs 12 and 13 that do not provide sufficient evidence to identify the economic substance of the transaction in combination, are also considered to be indicators of paragraph 14, which represent additional elements with respect to those originally considered.

It is worth highlighting that the circumstance for which one must resort to additional elements is considered "exceptional". In the case where it is necessary to resort to additional elements belonging to the institution concerned, it has to be considered which treatment provides better information to recipients about reporting.

Table 1. Indicators that potentially provide evidence of an amalgamation (IPSAS 40 para.12-13)

Indicators related to the corresponding (IPSAS 40, para. 12, AG 26-31)
The consideration is paid with different motivations with respect to the transfer of net assets (e.g., for the costs incurred for the operation). There is no consideration in the face of the passage of the net assets, for example, in the case in which a business is donated. Any consideration is not paid because there is no natural or legal person who can boast of rights on the net assets transferred. An acquisition would imply the passage from a previous owner to a new owner. This scenario is referable to the transfer of credit (not of individual branches of business). An example can be represented by the transfer of a company by a local authority or by entities not lucrative to a legal person benefitting. The local authority, as well as the bodies, not profit, do not fall under the definition "owners".
Indicators related to the decision-making process (IPSAS 40, para.13, AG 32-39)
A combination is imposed by third parties (for example, through regulations, or through a path of advertising of a society with economic subject, which is already public); without that the institutions involved should participate in the decision-making process. A combination is subject to approval by referendum on the part of citizens referring to entities involved. It is a combination between entities subject to joint control. This could be the case of the two ministries joined together by a decision of the executive organ of the State (central or federal). Additional elements, which may be taken into consideration where the indicators do not provide sufficient evidence to determine whether the combination is a union (IPSAS 40, para.13, AG 42-50)

It should be considered that IPSAS 40 has *de facto* reproposed by the amalgamation a choice already widely discarded by the IASB in the definition of IFRS 3 Business Combinations, assuming that a combination can determine a “merger of equals”. This does not mean of course that the choice is not appropriate from a technical point of view. The context is clearly different and accounting provides a representation of the reality. In the context of society, studies carried out prior to the adoption of IAS 22, predecessor of IFRS 3, had excluded the condition of merger of equals, since it did not exclude the possibility that could occur (in scope for profit) for an aggregation without definition of the subject of the controller.

4. Accounting Recognition and Amalgamation

The classification concerning business combinations in the public sector is preliminarily thematic and functional to IPSASB to the definition of the path of accounting aggregation operations. The first evidence is therefore that the classification is not merely speculative, but a crucial aspect for the accounting management. In a more general perspective, the Consultation Paper started with the assumption that the private sector model was not fully replicable and the consideration that it is not possible to express other than that a summary of the content of the models, examined in the following approaches:

- ***acquisition method***. It is in fact the approach used by the IASB with IFRS 3 (2004) and subsequent versions. In general terms, goodwill[2] is obtained by the difference between the consideration paid and the value of any interests of minority with the fair value net of the identifiable assets and liabilities;
- ***pooling of interests method***, with the variant of the modified pooling of interests method. The method is in practice granted by IAS 22 for the accounting of transactions of "mergers between equals" ("merger of equals"). This provides the re-proposal of accounting values exhibited by subjects participating in the operation. The distinction between the original method and that modified consists essentially in the "management" of the budget of the interim result of the period in which the operation took place (see also table below).
- ***fresh start method***. Originates from the assumption that the entity originated by the combination is always a "new" entity. For this reason, the method requires restatement of fair value not only of the elements of the acquired entity (in the case in which there is an acquired entity), but also of the buyer.

The following table provides the essential elements, which guide the accounting aggregation operations with the mentioned approaches.

[2] It is sufficient here to recall that the IFRS 3 (2004), Business Combinations, allowed the inclusion in the budget of the only partial goodwill, while the IFRS 3 (2008) also allows the use of full goodwill. The difference consists in the fact that the full goodwill represents the goodwill referred to the totality of the shares of the company aggregated, pertaining to difference between (a) the consideration paid more fair value of minority interests, and (b) an entity's equity acquired rectified to current values), while the partial goodwill identifies the difference between (a1) starting that emerges from the operation as the difference between the consideration paid more value pro-rata share of the interests of minority and acquired, (B1) share of net assets of the entity acquired rectified to current values.

Table 2. Methods and major choices of accounting

		Acquisition method	*Modified pooling of interests method*	*Fresh start method*
The time of the detection	Date of obtaining control	Date of the first period presented	Date of the combination	Date of the combination
Evaluation	Restatement of the identifiable assets and liabilities of the acquiree	The accounting values pre-existing, possibly aligned with the criteria applied by the institution that continues to exist as a result of the operation	The accounting values pre-existing, possibly aligned with the criteria applied by the institution that continues to exist as a result of the operation	Restatement of the identifiable assets and liabilities of buyer and acquired entity
Economic result for the year	The result of the acquirer and the result of the acquired entity made from the date of the acquisition are exposed in the profit and loss account	The economic results achieved in the exercise by the institutions concerned are recognized in the income statement	The economic result made from the date of the combination is shown in the income statement	The economic result made from the date of the combination is shown in the income statement
Profit or loss brought forward			Considering that the economic result is generated from the date of the combination, new profit/loss brought does not emerge until the end of the first year	Considering that the economic result is generated from the date of the combination, new profit/loss brought does not emerge until the end
Comparative information	Not revalued	Revalued	None	None
Consideration transferred	Cash or other assets, including shares	Only an exchange of shares	Only an exchange of shares	Cash or other assets, including shares

Reprocessing by: IPSASB (2012), Consultation Paper, Public Sector Combinations, tab.2, p.30.

The amalgamation is accounted for the so-called "*modified pooling of interests method*", i.e., “confirming” the carrying amounts. The operation does not *de facto* generate a different substantial entity with respect to the situation prior to the operation. In general terms, the reason being that the same rationalization of resource utilization could in practice relate more to the organization rather than the other aspects related to the economic nature of the institution, as in the case in which two entities that already work together despite their figures distinctly legal, are merged.

At the amalgamation date, the resulting entity classifies or designates the assets and liabilities received in compliance with the classifications or designations previously applied by the combining operations. Adjustments arising from the need to conform to the resulting entity’s accounting policies are included in net assets/equity.

Any difference between consideration (if existing) with assets and liabilities transferred is recognized in net assets/equity. However, there are some exceptions to the carryover accounting explicitly provided for:

- licenses or similar rights, which continue to be detected in the budget, even in the case in which they originate from a transaction between two involved entities;
- taxes on income. The tax slopes "subscribed" as a result of the operation are not considered as liabilities at the date of the combination;
- employee benefits, which can lead to the recognition and measurement of a liability (or a task) with the finalization of the transaction.

At the accounting level, the adoption of the pooling of interests method in its "modified" version requires:

- the identification of the resulting entity;
- the determination of the amalgamation date;

- the recognition and measurement of the identifiable assets received, the liabilities assumed and non-controlling interests, compliant with the IPSASs' requirements;
- the recognition and measurement of the components of the net assets and any other adjustments arising from the amalgamation (IPSASB, IPSAS 40, para.16).

The presentation of financial statements distinguishes the cases where the resulting entity is a continuing entity (IPSAS 40, para. 50), as when the amalgamation is determined by a combination of equals, or a new entity (IPSAS 40, para.51), as often in the case the combination originates from a transfer of function or entities between government departments. The following table reflects the IPSASB's requirements.

Presentation of financial statements

Resulting entity as a new entity	Resulting entity as a continuing entity
"[…] the resulting entity's first set of financial statements following the amalgamation shall comprise: (a) An opening statement of financial position as of the amalgamation date; (b) A statement of financial position as at the reporting date; (c) A statement of financial performance for the period from the amalgamation date to the reporting date; (d) A statement of changes in net assets/equity for the period from the amalgamation date to the reporting date; (e) A cash flow statement for the period from the amalgamation date to the reporting date; (f) If the entity makes publicly available its approved budget, a comparison of budget and actual amounts for the period from the amalgamation date to the reporting date, either as a separate additional financial statement or as a budget column in the financial statements; and (g) Notes, comprising a summary of significant accounting policies and other explanatory notes" (IPSAS 40, para.50).	"[…] the resulting entity shall disclose: (a) The amounts recognized of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity; (b) Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and (c) Any adjustments made to eliminate transactions between the combining operations" (IPSAS 40, para.50).

It is to be noted that the IPSAS 40 does not require - differently from the proposal included in ED 60 - the restatement of comparatives.

5. Accounting provisions for amalgamation and combinations

Considered that the operation is carried out with reference to the date of the operation does not require the comparative information. The IPSAS 40 allows, in fact, but does not require the presentation of comparative information. In the case where the entity elects to return the data in the previous exercise, the comparative data are not restated.

The public sector entity Alpha incorporates during the period the public sector entity Beta. The operation is classified as an amalgamation. The following table refers to their essential data at the amalgamation date

Financial position Alpha ante amalgamation	
Inventories 200 **Financial assets at short 150** **Current Assets 350**	Short-term liabilities 450 Long term debts 250 Liabilities 700
PPE 420 **Intangible assets 230** **Non-current assets 650**	Equity 300

Financial position Beta Pre-Merger	
Inventories 180 **Financial assets at short 270** **Current Assets 450**	Short-term liabilities 200 Long term debt 200 Liabilities 400
PPE 100 **Intangible assets 50** **Non-current assets 150**	Equity 200

Beta has to redetermine their properties, plants and equipment (PPE) to comply with the accounting policy applied by Alpha. Doing this, the PPE are carried out in the financial statements of the resulting entity at 170. Assuming that there is no transaction between the two entities, we will then, assess the situation post-amalgamation.

Financial position Alpha ante amalgamation	
Inventories 380 **Financial assets at short 420** **Current Assets 800**	Short-term liabilities 650 Long term debt 450 Liabilities 1,100
PPE 590 **Intangible assets 280** **Non-current assets 800**	Equity 570

In the case in which, then, the operation had also provided the rebate on the part of the treasury of tax payables (*tax forgiveness*), say equal to 200, the short-term debts would become equal to 450 and equity equal to 770.
The continuing entity has, then, to disclose also the related adjustments made to components of net assets/equity to conform the accounting policies of the combining operations with those of the resulting entity.

In extreme synthesis, also starting from the assumption that the model of the acquisition of the IPSAS 40 repeats in good part the (already known) provisions contained in IFRS 3 (2008), you can highlight that the acquisition method of accounting requires:

- the identification of the acquirer;
- the determination of the acquisition date;
- the recognition and measurement of (i) the identifiable assets acquired and liabilities assumed at their fair value, and (ii) any non-controlling interests, at fair value or share representative of equity held;
- the recognition and measurement of goodwill,
- a gain or loss arising from the transaction (IPSAS 40, para.59).

The aforesaid are simultaneously provided exceptions related to the recognition and measurement requirements. Regarding the sensing elements, IPSAS 40 provides that contingent liabilities related to acquisitions are recognized even without there being the likelihood that the underlying event occurs, as indicated by the IPSAS 19, Provisions, contingent liabilities and contingent assets. Taxes on income subscribed, as in modified pooling of interest, are cancelled. The elements that remain from the taxation are accounted for, as provided by the IPSAS 23, Income from operations without consideration equivalent (taxes and transfers).

Any potential activities arising from indemnities connected to elements acquired in the operation of acquisition are entered in the budget post-acquisition at their fair value. It derives that the element concerned by the agreement is not affected by the uncertainty connected to compensation. With specific reference to the elements of assessment, the IPSAS 40 requires to evaluate the rights of repurchase in measurement of the residual utilization without considering any renewals, as well as to assess a financial liability or an equity instrument related to transactions with the actions of the asset acquired in accordance with the relevant provisions contained in national or international accounting standards.

5. A cross-country comparison: is this possible?

The comparison between different local approaches are not easy and are limited by many factors, such as the different composition and role of the interested public administrations in the related context, the use of accounting, the attitude towards technical requirements (Grossi and Pepe, 2009).

This paragraph intends to explore few other specific local accounting policies dedicated to the accounting for business combinations within the public sector. The analyzed requirements are:

- the UK HM Treasury; and
- the US Gasb 69

The UK HM Treasury (2017) has analyzed the accounting for business combinations in the public sector, by publishing the "Government Financial Reporting Manual". The related requirements likely represent one of the most original approaches to this issue; the aforesaid provisions were published in 2014, just in the core period of the IPSASB's debate.

The UK Government moves from the assumption that business combinations in the public sector are business combinations under common control. Their combination, or the combination of their functions defined as "identifiable business operation with an integrated set of activities and recognized assets and/ or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation" can be classified, being outside the scope of IFRS 3, as:

- *transfer by merger*, that is referred to transfers of function between departments within central government "but not between a Westminster Department and the Welsh Government, Northern Ireland Assembly or Scottish Government". Carrying value are not redetermined and only adjusted in relation to the adoption of different accounting policies. The financial statements are combined from the beginning of the period in which the operation occurred. The comparatives should be substantially reported according to the provisions of IAS 1, Presentation of financial statements;
- *transfer by absorption*, that is referred "to or from Public Corporations; between Devolved Administrations and Whitehall Departments; within a departmental boundary; and for all transfers reported by Executive NDPB's, other arm's length bodies within central government and trading funds". Carrying value are not redetermined and only adjusted in relation to the adoption of different accounting policies. The financial statements are combined from the date of the transfer. Comparatives are not reported in the primary financial statements. The net assets/liabilities are recorded as a non-operating gain/loss. Any revaluation reserves are fully transferred by an equity operation by the transferor.

The following is an example consistent with the transfer by absorption accounting, taken from the Department of Health Group Accounting Manual.

Example 1: During the financial year, an NHS foundation trust is the recipient of a transfer of a function from an NHS trust that meets the definition of a machinery of government change. The function is received on 1 February. The net assets received are £40m. These net assets have an associated revaluation reserve balance in the NHS trust's accounts of £12m. On 1 February the NHS foundation trust recognises the £40m net assets in its SoFP. It also recognises a gain of £40m which it records as income. This income is material and therefore the trust decides to present it in the SoCI as a separate item below Finance Costs but within the overall surplus/deficit. The NHS foundation trust then transfers £12m from its income and expenditure reserve to its revaluation reserve, and reports this transfer in the statement of changes in taxpayers' equity.

Source: Department of Health (2017), Department of Health Group Accounting Manual 2017-18, par. 1.488

It is worth being taken into consideration that IFRS 3 provides the accounting requirements concerning the business combinations between an entity within the public sector and an entity outside the public sector.

The Governmental Accounting Standards Board (GASB) is, on the other hand, the source of generally accepted accounting principles (GAAP) adopted by state and local governments in the United States.

The GASP no. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

As used in this principle, combinations include transactions related to:

- *government mergers*, that include combinations of legally separate entities without the exchange of significant consideration. In this case, assets and liabilities are required to be recorder by using the carrying amounts. The new government entity should not recognize additional assets, deferred outflows of resources, liabilities, or deferred inflows of resources that authoritative guidance for state and local governments does not require or permit the merging governments to recognize (for example, intangible assets that were not required to be reported) (GASB 69, par. 15).

- *government acquisitions*, that represent transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. The measurement criteria of assets acquired and liabilities assumed follows the acquisition values. The acquiring government should recognize the assets, deferred outflows of resources, liabilities, or deferred inflows of resources acquired or assumed at the acquisition date, in conformity with authoritative guidance for state and local governments. The acquiring government's application of recognition principles may result in recognizing assets, deferred outflows of resources, liabilities, or deferred inflows of resources that the acquired organization was not required to recognize (GASB 69, par. 30).
- *transfers of operations*, that do not represent entire legally separate entities and in which no significant consideration is exchanged. This principle requires the use of carrying values to measure the assets and liabilities. The entities involved in a transfer of operations may have measured the assets, deferred outflows of resources, liabilities, or deferred inflows of resources by applying different, but acceptable, methods of accounting in their separate financial statements. Transferee governments may adjust the amounts of those assets, deferred outflows of resources, liabilities, or deferred inflows of resources to reflect a consistent method of accounting as long as those methods comply with the accounting and financial reporting requirements for state and local governments (GASB 69, par. 48).

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The principle provides specific accounting and financial reporting guidance for combinations in the governmental environment by improving the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

Example 2: On March 15, 20X0, the City transferred the assets and liabilities comprising its fire service operations to the Mountain Region Fire Authority (MRFA) for the purpose of enhancing emergency fire services. As a result of the transfer, the City recognized a loss of $2.9 million on the disposal of its fire service operations as a special item. The City's 20X0 expense related to its fire service operations totaled approximately $11.2 million. 20X0 revenues associated with the City's fire service operations, consisting of both program and general revenues, totaled approximately $9.6 million. Expenditures and revenues of the fire services operations reported in the general fund were $10.9 million and $9.7 million, respectively

Source: Illustrative Disclosure, Gasp 69, January 2013, No. 334-A, p. 62

6. Concluding remarks

This study was able to conceptually analyze the content of IPSAS 40 related to Business Combination in the public sector. The contribution focused on the analysis of some sections of IPSAS 40, returning to the reading of the principle for a more exhaustive examination and indicating only in certain limited circumstances the adjustments made to the draft of reference. The issue concerns public sector entities, which reported its activity in accordance with IPSAS articulated on the accrual principle (*accrual data Basis of Accounting*).

The IPSASB's interest in this field is due to the fact that public sector combinations are recurring operations. It is clear, at the same time, that the related technical issue of combinations under common control is not generally accounted for at an international level.

The publication of IPSAS 40 will presumably determine a higher harmonization in this field.

To date, it seems that the international orientation aims to support the adoption of the pooling of interests method in this kind of combinations. That said, it seems to be difficult, also moving from the analyzed cases, to achieve a complete harmonization also for the following reasons:

- combinations are often addressed as "structural" operations. These mentioned operations are functional to the role covered by public administrations within a State. This implies that the operations that generate the related combinations often "follow" the configuration of public administrations. A State where public entities are not involved in the market might present combinations in the public sector which appear different with respect to a State where public sector entities actively operate in the market;
- the rationale and past experience could determine or require specific accounting techniques;
- the influence of private sector accounting standards might motivate a specific orientation towards the adoption of accounting standards or consolidated practice in the private sector combinations under common control.

These reasons could motivate a departure from the adoption of IPSAS 40, even in those circumstances where IPSASB requirements are the basis for the required accounting model.

In this context, IPSASB has positively orientated their efforts towards the definition of an accepted accounting policy.

The concrete stakeholder satisfaction could be measured only in the next few years, as the Standard is effective -even if an earlier adoption is encouraged- for those combinations occurred on or after on or after the beginning of the first annual reporting period beginning on or after January 1, 2019.

7. Contribution to Knowledge and future research

This study was able to conceptually analyze the content of IPSAS 40 related to Business Combination in the public sectors. The contribution focused on the analysis of some sections of IPSAS 40, returning to the reading of the principle for a more exhaustive examination and indicating only in certain limited circumstances the adjustments made to the draft of reference. The issue concerns public sector entities, which reported its activity in accordance with IPSAS articulated on the accrual principle (*accrual data Basis of Accounting*). Future investigation could be conducted to know the effect of IPSAS 40 on the performance of entities in public sectors and also on the accounting behavior of entities in public sectors. It will be specifically interesting to comprehend the application of the Standard, the level of harmonization, the operating application of the Standard. Another interesting future direction will be analyzing and comparing cases of Public Business Combination in different countries in order to assess the results of the IPSAS 40 adoption. Finally, the users' satisfaction could be measured by interviews and/or surveys after the IPSAS 40 adoption.

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