Development of Accounting Standards for Business Combinations in the UK and the Concerns

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There have been two basic accounting methods for business combinations in the UK accounting standards and exposure drafts : the acquisition accounting and the merger accounting. These two accounting methods have been seen in the UK conceptual frameworks for accounting and companies act.

Under the acquisition accounting an investment in a subsidiary would normally be recorded at the fair value of the consideration given. Where the fair value of any shares issued exceeds their par value, a share premium account or merger reserve would normally be created in the parent company's financial statements.

By contrast, under the merger accounting an investment in a subsidiary would normally be recorded in the parent company's financial statements as the total of the nominal value of any shares issued (plus the fair value of any other consideration). Thus the carrying value of the investment would not be equal to the fair value of the consideration given and share premium account or merger reserve would not be created.

As regards accounting methods for business combinations, there is a coherence in accounting standards, conceptual frameworks and companies act.

A role of ASB (the present accounting standards-setter in the UK) is the convergence of UK standards with IFRS.

Thus, it is thought that ASB can revise the accounting standard for business combinations and abandon the merger accounting. And that will lead to an incoherence in accounting standards, conceptual frameworks and companies act.