



Standards in Focus

Accounting Standards for Private Enterprises (ASPE)

Amendments to Section 3840, *Related Party Transactions*

May 2026

READ MORE

Background

The Accounting Standards Board (AcSB) issued clarifying amendments to Section 3840, *Related Party Transactions*, in December 2025. The amendments are specifically focused on accounting for a combination involving a business under common control. Section 3840 has been effective since January 1, 2011, and was previously amended for this topic in September 2023¹.

When are the amendments effective?

Amendments issued in December 2025 are effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. An enterprise applies these amendments prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

Why amend Section 3840?

The December 2025 amendments address an application question regarding the option to account for a combination prospectively introduced as part of the September 2023 amendments². The December 2025 amendments clarify that an enterprise that chooses to account for a combination prospectively from the combination date is allowed to account for it as either a new reporting enterprise without presenting comparative information, or as a continuation of one of the combining enterprises and presenting the comparative information of that enterprise.

What are the key changes?

The December 2025 amendments build on the prospective accounting option introduced in September 2023.

Enterprises using carrying values can now account for a combination involving a business under common control prospectively using one of two options:

- a. As a new reporting enterprise with no comparative information; or
- b. As a continuation of one of the combining enterprises with comparative information of that enterprise.

The retrospective option remains available and the accounting policy choice may be applied on a transaction-by-transaction basis.

When choosing an option, enterprises should consider the financial information needs of their financial statement users. They may also weigh practical factors, such as the availability of information and the preparation costs. For example, the retrospective approach may be appropriate when users need year-over-year comparability for decision making purposes and benefits of presenting historical financial information outweigh the costs to prepare it. In contrast, the prospective option may be appropriate when financial statement users do not require restated historical data and the benefits of this information may not outweigh the costs.

In addition, the December 2025 amendments introduced a new requirement to disclose the option an enterprise has chosen for each transaction when applying paragraph 3840.44(b). Consequential amendments were also made to Sections 1582, *Business Combinations*, and 3856, *Financial Instruments*, to align with the language in Section 3840.

¹ Effective for fiscal years beginning on or after January 1, 2025, with earlier application permitted.

² Other September 2023 amendments removed reference to exchange amount and made consequential amendments to Sections 1582 and 3856.

What does this mean in practice?

For a combination involving a business under common control in which carrying values are used and the enterprise chooses to account for the combination prospectively, the combined enterprise may be presented as either:

1. A new reporting enterprise, with no pre-combination comparatives; or
2. A continuation of one of the combining enterprises, with current and comparative information of that enterprise to be shown.

The option to account for the combination retrospectively for the entire period in which the combination occurred and for all prior periods remains available.

For example:

Company A owns 100% of Subsidiaries B and C. On July 1, 2026, Company A merges Subsidiary C into B creating Subsidiary D.

If Company A chooses a **prospective option**, it can account for this combination in one of two ways:

1. As a new reporting enterprise – Subsidiary D's December 31, 2026 income statement will show results only from July 1, 2026 onward and no 2025 comparative column is presented; or
2. As a continuation of one of the combining enterprises – assuming Subsidiary B is the “continuing” enterprise, its 2026 income statement will show its results for the full year, plus Subsidiary C's results starting from July 1, 2026 and the 2025 comparative column only showing Subsidiary B's historical figures.

If Company A instead chooses the **retrospective option**, then 2026 income statement shows both companies combined for the full 12 months. The 2025 comparative column will be fully restated to show what the combined Subsidiary D would have looked like if they had always been combined.

In summary: When accounting for a combination involving a business under common control at carrying values, an enterprise must first determine whether to apply one of the prospective options or the retrospective option. If the enterprise chooses to apply a prospective option, a second determination is required: whether the combined enterprise is presented as a new enterprise or as a continuation of one of the combining enterprises.

What Can You Do?

01

Read amended Section 3840 and its Basis for Conclusions available for CPAs via **Knotia.ca**.

READ IT

02

Regularly visit CPA Ontario's **Guidance on Compliance Knowledge Hub** to stay current on evolving standards.

CHECK FOR UPDATES

03

Contact Professional Advisory Services by phone at **416 204.3106** or **1 800 387.0735 x 4456** or email us.

EMAIL US

Disclaimer

This article is intended for general informational purposes only. It is your responsibility to ensure compliance with **Section 3840, Related Party Transactions**, as outlined in the Accounting Handbook, based on your specific situation. In the event of any discrepancy between this article and the applicable official standards or guidance, the official sources shall prevail. Users are encouraged to consult the original sources for complete and authoritative information.