Case 17-3
Cool Care

In July 2013, Cool Care, an SEC registrant and a hospital operator in the United States, entered into a merger agreement to acquire Healthy Hearts. Healthy Hearts is an unrelated third party that operates specialty hospitals focused exclusively on cardiology. The merger closed on January 31, 2014 (the "Closing"), whereby Cool Care acquired all of the outstanding common stock of Healthy Hearts, and Healthy Hearts become a wholly owned subsidiary of Cool Care (the "Acquisition").

In 2010, in a public offering, Healthy Hearts raised capital to expand and upgrade its operating rooms by issuing $400 million aggregate principal amount of 7.00% senior notes due in 2020 (the "Notes"). In performing due diligence and assessing the terms of the Notes, Cool Care determined that it could obtain cheaper financing and instructed Healthy Hearts to make a tender offer for any and all its outstanding Notes (the "Tender Offer"). Accordingly, contemporaneously with the Closing, all the outstanding Notes were redeemed. Healthy Hearts did not have sufficient cash on hand before the Acquisition to redeem the Notes.

Additional Facts:

The Acquisition meets the definition of a business combination.

- The terms of the Notes did not require Healthy Hearts to redeem or offer to repurchase the Notes upon a change in control (i.e., the decision to redeem the Notes was voluntary).
- It was solely Cool Care's decision to redeem the Notes.
- The fair value of the Notes as of the date of the Closing was equal to the amount paid to redeem the tendered Notes. In addition, Healthy Hearts carried the Notes at their par value (i.e., there is neither a premium nor a discount present with the Notes).

Required:

In consideration of the information presented above, answer the following questions.

1. Should Healthy Hearts include the extinguishment of debt (i.e., the Notes) in its precombination financial statements or should Cool Care include it in the postcombination financial statements? What is the appropriate treatment of any gain or loss on the extinguishment of debt? (Note that for this question, the precombination financial statements represent Healthy Hearts' operations before the Acquisition and the postcombination financial statements represent Cool Care's consolidated financial statements after the Acquisition.)
2. Are there differences between ASC 805 and IFRS 3 that should be considered in the analysis?