



IFRS 3 BUSINESS COMBINATIONS

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OBJECTIVE

Specify the *Financial Reporting* by an Entity when it undertakes a *Business Combination*.



CORE PRINCIPLE

**All Business
Combinations
should be accounted
by applying the
PURCHASE
METHOD.**



SCOPE

Accounting for Business Combinations

Exclusions :

- Formation of Joint Ventures – IAS 31
- Entities under Common Control
- Business Combinations involving Mutual Entities
- Business Combination involving formation of Reporting Entity by Contract alone without – Ownership Interest. Eg. Dual Listed Corporation



DEFINITION - BUSINESS

Integrated Set of Activities and Assets conducted & managed for the purpose of providing :

- a Return to Investors; or
- Lower costs or other Economic benefits directly and proportionately to Policyholders or Participants.



If GOODWILL is present –
Presumption as to Business.

RECOGNITION – ACQUIRER’S PERSPECTIVE

The Acquirer Recognises the
Acquiree’s Identifiable

Assets

Liabilities (including
Contingent Liabilities)

At Fair Value

At Acquisition Date.



Goodwill on Acquisition is recognised and
Subsequently tested for Impairment at reporting date
annually rather than amortised.

IFRS 3 : APPLICATION SUMMARY

1

- Identify the Acquirer

2

- Measure the Cost of Business Combination

3

- Allocate the Cost to Assets, Liabilities on Acquisition Date



IDENTIFY THE ACQUIRER

- ❖ Acquirer obtains **CONTROL** of the Acquiree.
- ❖ **CONTROL – POWER** to govern the **FINANCIAL** or **OPERATING POLICIES** of an Entity or Business – to obtain benefits from its activities.
- ❖ Presumption that Acquirer can be identified in a Business Combination.



HOW TO IDENTIFY THE ACQUIRER?

The Entity

1. Acquires more than half of the other entity's voting rights
2. Acquires less than half of the other entity's voting rights but Exercises—
 - A. Power over half of the other Entity's voting rights by virtue of
 - i. an Agreement with other Investors; or
 - ii. a Statue or an Agreement
 - B. Power to appoint or remove Board of Directors
 - C. Power to cast majority votes at meetings of Board of Directors.

HOW TO IDENTIFY THE ACQUIRER?

Indicators – The Entity

- ❑ whose Fair Value is Higher
- ❑ making payment of Cash or Other Assets
- ❑ whose Management Dominates in the Combined Entity
- ❑ initiated the process of Business Combination

Note: New Entity is formed – Identify one of the existing entities as the Acquirer on the previously mentioned criteria.

MEASURE THE COST OF BUSINESS COMBINATION

The Cost of Business Combination is

- ++ Fair Value of Assets (includes Cash) given
- ++ Fair Value of Liabilities assumed
- ++ Fair Value of Equity instruments issued by the Acquirer
- ++ Directly Attributable Costs of Business Combination
- ++ Present Value of Deferred Consideration
- ++ FV of Contingent Consideration – if Adjustment is Probable and can be measured Reliably.

N.B. Fair Value (FV) is measured at Date of Exchange.



DEFINITIONS – COST OF BUS. COM.

Acquisition Date	Date on which Acquirer Effectively obtains 'Control' of the Acquiree.
Directly Attributable Costs	Includes – Professional fees paid to Accountants, Legal Advisors, Valuers and other Consultants to effect Business Combination. Excludes – General Administration Costs, etc. not specifically linked to a Business Combination
Fair Value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm length's transaction.

ALLOCATE THE COST TO ASSETS, LIABILITIES ON ACQUISITION DATE

Recognises the Acquiree's Identifiable

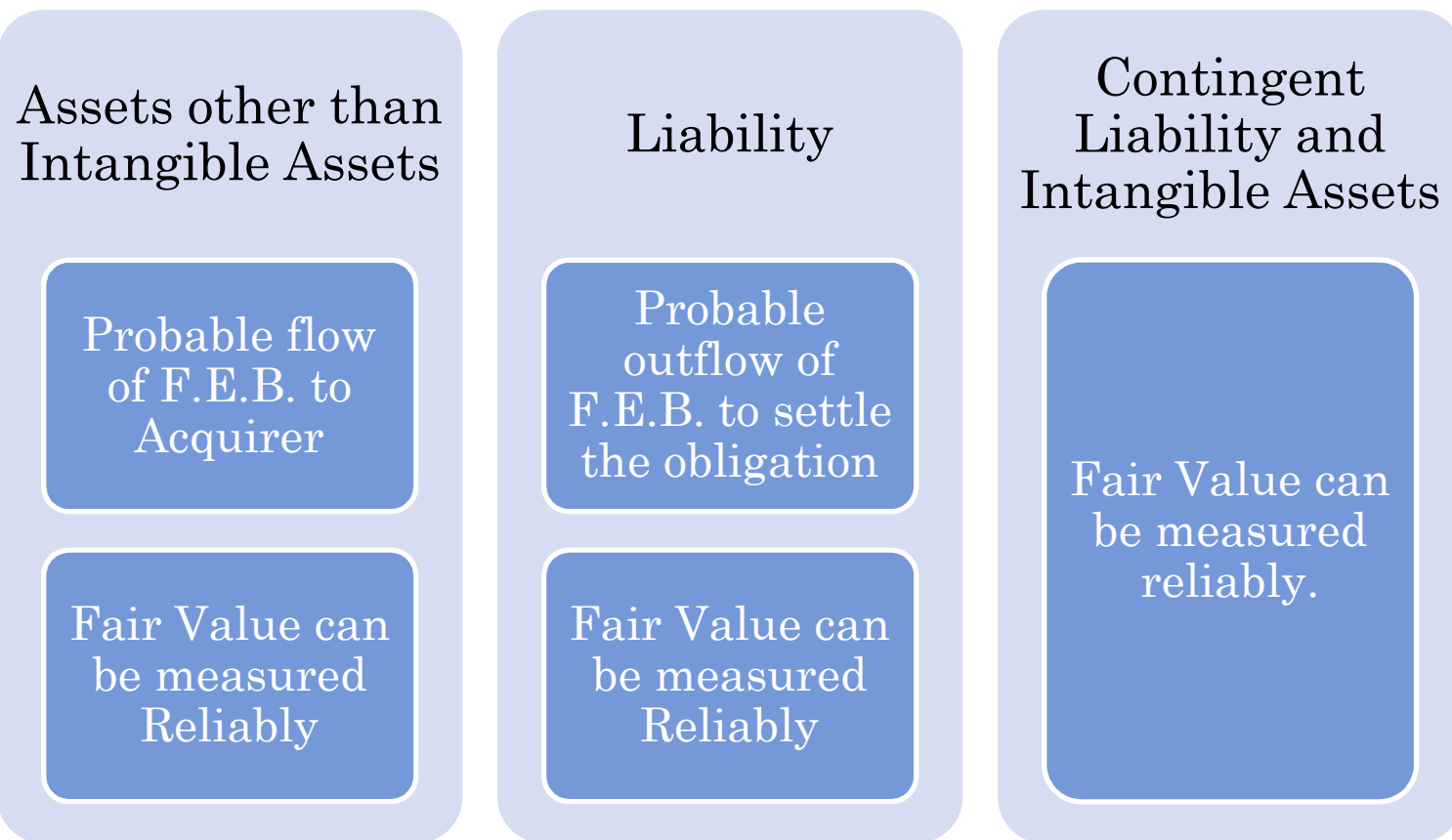
- Assets
 - Liabilities
(including Contingent Liabilities)
- At Fair Value
At Acquisition Date.

Exception:

Non-current Assets (or Disposal Groups) that are classified as Held for Sale as per IFRS 5 shall be recognised At Fair Value Less Costs to Sell.

ALLOCATE THE COST TO ASSETS, LIABILITIES ON ACQUISITION DATE

RECOGNITION CRITERIA



RECOGNITION OF INCOME OF ACQUIREE

Profits / Losses of Acquiree shall be Incorporated after the Date of Acquisition.

Profits / Losses shall be Based on the Cost of Business Combination to the Acquirer.

RECOGNITION OF GOODWILL

- ❑ Cost of Business Combination > Fair Value of Assets, Liabilities & Contingent Liabilities acquired
- ❑ Recognise Difference as GOODWILL as Asset
- ❑ Initial Measurement At Cost.
- ❑ Subsequent Measurement – Cost less Accumulated Impairment loss (if any)

- ❑ Goodwill – payment for F.E.B. from assets not capable of being individually identified and separately recognised.
- ❑ No Amortisation – Test for impairment annually or more frequently – if events indicate Impairment (IAS 36)

BARGAIN PURCHASE

- ❑ Cost of Business Combination < Fair Value of Assets, Liabilities & Contingent Liabilities acquired.
- ❑ Reassess the identification & measurement of Acquiree's identifiable Assets, Liabilities, and Contingent Liabilities and the measurement of Cost of Business Combination.
- ❑ Recognise in P & L – any excess remaining after that reassessment.

DISCLOSURE – BY ACQUIRER

Information that enable the users of Financial Statements evaluate:-

- ❑ The Nature and Financial Effect of Business Combination effected
 - ❑ during the period; and
 - ❑ after the Balance sheet date but before the Financial Statements are authorised for issue.
- ❑ The Financial Effect of Gains, Losses, Error Corrections and other adjustments recognised in current period that relate to Business Combination effected in Current or Prior periods.

SIGNIFICANT DIFFERENCES WITH INDIAN GAAP

SIGNIFICANT DIFFERENCES

	IFRS	Indian GAAP
Literature	IFRS 3 – Business Combinations	AS 14 – Accounting for Amalgamations
Scope	Wide - Covers all forms of Business Combination irrespective of legal form.	Limited – Covers only Mergers & Amalgamation.
Method of Accounting	Only PURCHASE Method	Pooling of Interest for Mergers Purchase Method for Amalgamation

SIGNIFICANT DIFFERENCES

	IFRS	Indian GAAP
Recognition of Assets and Liabilities of Acquiree	at Fair Value of identifiable assets and liabilities (including Contingent Liabilities)	Amalgamation – Choice of Book Value or Fair Value Merger – at Book Value including Reserves
Treatment of Negative Goodwill	<ul style="list-style-type: none"> ▪ Reassessment ▪ Recognise in P & L. 	Recognise as Capital Reserve.
Treatment of Goodwill	No AMORTISATION. Tested for Impairment at least annually.	Amalgamation- Amortised over a period of not more than 5 years. M & A – Tested for Impairment as per AS 29

Thank You

