# BDO PBE IFRS 3: BUSINESS COMBINATIONS

**Effective Periods Beginning** 

1 April 2015

## **IDENTIFYING A BUSINESS COMBINATION / SCOPE**

#### A business combination is:

· A transaction or other event in which acquirer obtains control over a business (e.g. acquisition of shares or net assets, legal mergers, reverse acquisitions).

#### PBE IFRS 3 does not apply to:

- · The formation of a joint venture.
- · Acquisition of an asset or group of assets that is not a business.
- · A combination of entities or businesses under common control.
- · A business combination arising from a local authority reorganisation.

#### Definition of "Control"

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

#### Definition of a "Business"

- · Integrated set of activities and assets;
- · Capable of being conducted and managed to provide return or for providing goods or services for community or social benefit.
- · Returns include dividends and cost savings.

#### **Acquisition Costs**

- · CANNOT be capitalised, must instead be expensed in the period they are incurred.
- Professional fees and general administration
- Includes: finders fees, advisory, legal, accounting, valuation and other.

However, costs to issue debt or equity are recognised in accordance with PBE IPSAS 28 Financial Instruments: Presentation and PBE IPSAS 29: Financial Instruments: Recognition and Measurement.

#### **ACQUISITION METHOD**

A business combination must be accounted for by applying the acquisition method.

**TIER 2 RDR REPORTERS** 

#### STEP 1. IDENTIFY ACOUIRER

PBE IPSAS 6- Consolidated and Separate Financial Statements guidance is used to identify the acquirer the entity that obtains control of the acquiree.

## STEP 4. RECOGNITION AND MEASUREMENT OF GOODWILL OR A GAIN FROM A BARGAIN PURCHASE

- Goodwill is required to be measured as the excess
- The aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;
- The net identifiable assets acquired (including any deferred tax balances).
- Goodwill can be grossed up to include the amounts attributable to NCI.
- If the acquirer has made a gain from a bargain purchase that gain is recognised in surplus or deficit immediately.
- The consideration transferred in a business combination (including any contingent consideration) is measured at fair value.
- Contingent consideration is either classified as a liability or an equity instrument on the basis of PBE
- Contingent consideration that is within the scope of PBE IPSAS 29 (classified as a financial liability) needs to be remeasured to fair value at each reporting date with changes reported in surplus or deficit.

RDR Reporters are granted certain disclosure exemptions under PBE IFRS 3.

## STEP 2. DETERMING THE ACQUISITION DATE

The date on which the acquirer obtains control of the acquiree.

## STEP 3. RECOGNITION AND MEASUREMENT OF IDENTIFIABLE ASSETS. LIABILITIES AND NON-CONTROLLING INTERESTS (NCI)

- As of the acquisition date, the acquirer recognises, separately from goodwill:
- The identifiable assets acquired;
- The liabilities assumed (includes contingent liabilities); and
- Any NCI in the acquiree.
- The acquired assets and liabilities are required to be measured at their acquisition-date fair values.
- NCI interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation (e.g. shares) are measured at acquisition-date fair value or at the NCI's proportionate share in the net assets (accounting policy election).
- All other components of NCI are required to be measured at their acquisition-date fair value.
- There are certain exceptions to the recognition and/or measurement principles which cover contingent liabilities, income taxes, employee benefits, indemnification assets, reacquired rights, share-based payments and assets held for sale.

## ADDITIONAL GUIDANCE FOR APPLYING THE ACQUISITION METHOD

#### STEP ACOUISTIONS

- An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. This is known as a business combination achieved in stages or a step acquisition.
- · Obtaining control triggers re-measurement of previous investment (equity interests).
- The acquirer remeasured its previously held equity interest in the acquiree at its acquisitiondate fair value. Any resulting gain/loss is recognised in surplus or deficit.

### **BUSINESS COMBINATION WITHOUT** TRANSFER OF CONSIDERATION

- The acquisition method of accounting for a business combination also applies if no consideration is transferred.
- · Such circumstances include:
- The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.
- Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.
- The acquirer and the acquiree agree to combine their businesses by contract alone.

## **ACCOUNTING**

- combination, an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in accordance with other applicable PBE Standards.
- However, PBE IFRS 3 includes accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets.

# SUBSEQUENT MEASUREMENT AND

- In general, after the date of a business

effort is made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice hexamination of the particular facts and circumstances of the situation.

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