# IFRS 3 Business Combinations

**Identifying a Business Combination / Scope**
A business combination is:
- Transaction or event in which acquirer obtains control over a business (e.g. acquisition of shares or net assets, legal mergers, reverse acquisitions).

IFRS 3 does not apply to:
- The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- Acquisition of an asset or group of assets that is not a business.
- A combination of entities or businesses under common control.

**Definition of “control of an investee”**
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

**Control (refer to IFRS 10)**
- Ownership of more than half the voting right of another entity
- Power over more than half of the voting rights by agreement with investors
- Power to govern the financial and operating policies of the other entity under statute/agreement
- Power to remove/appoint majority of directors
- Power to cast majority of votes.

**Definition of a “Business”**
- Integrated set of activities and assets
- Capable of being conducted and managed to provide return
- Returns include dividends and cost savings.

**Acquisition Costs**
- Cannot be capitalised, must instead be expensed in the period they are incurred
- Costs to issue debt or equity are recognised in accordance with IAS 32 and IFRS 9.

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

**Step 1: Identify Acquirer**
IFRS 10 Consolidated Financial Statements is used to identify the acquirer - the entity that obtains control of the acquiree.

**Step 2: Determining the Acquisition Date**
The date which the acquirer obtains control of the acquiree.

**Step 3: Recognition and Measurement of Goodwill or a Bargain Purchase**
- Goodwill is recognised as the excess between:
  - 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 identifiable net assets acquired (including any deferred tax balances)
- Goodwill can be grossed up to include the amounts attributable to NCI, that is the case when NCI is measured at their acquisition date fair value.
- A gain from a bargain purchase is immediately recognised in profit or loss
- The consideration transferred in a business combination (including any contingent consideration) is measured at fair value
- Contingent consideration that is either classified as a liability or an equity instrument on the basis of IAS 32 Financial Instruments
- Contingent consideration that is within the scope of IFRS 9 (classified as a financial liability) needs to be remeasured at fair value at each reporting date with changes reported in profit or loss.
- The acquirer should consider if the consideration includes amounts attributable to other transactions within the contract (pre-existing relationship, arrangements that remunerate employees etc.).

**Step 4: Recognition and Measurement of Assets, Liabilities and Non-Controlling Interests (NCI)**
- As of the acquisition date, the acquirer recognizes, separately from goodwill:
  - The identifiable assets acquired
  - The liabilities assumed
  - Any NCI in the acquiree
- The acquired assets and liabilities are required to be measured at their acquisition-date fair values.
- 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.
- 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 net assets.
- All other components of NCI (e.g. from IFRS 2 Share-based payments or calls) are required to be measured at their acquisition-date fair values.

**Additional Guidance for Applying the Acquisition Method**

**Step Acquisition**
- 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 as a step acquisition.
- Obtaining control triggers re-measurement of previous investments (equity interests).
- The acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value (including interests in joint arrangements classified as joint operations (R)). Any resulting gain/loss is recognised in profit or loss.

**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.

**Subsequent Measurement and Accounting**
- In general, after the date of a business combination an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in accordance with other applicable IFRSs.
- However, IFRS 3 includes accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets.