



**IFRS AT A GLANCE**  
**IFRS 3 *Business Combinations***



# IFRS 3 *Business Combinations*

## SCOPE / IDENTIFYING A BUSINESS COMBINATION

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.

**Power:** when existing rights give an investor the current ability to direct the relevant activities of an investee (ie the activities that significantly affect the investee’s returns)

**Rights to variable returns:** an investor is exposed or has rights to returns that vary as a result of the investee’s performance

**Link between power and returns:** control exists when an investor has power over an investee and exposure or rights to the investee’s variable returns, and has the ability to use its power to affect the investee’s returns.

**Principal or agent:** an investor with power over an investee determines whether it is a principal or an agent. An investor that is an agent does not control an investee when it exercises delegated rights.

### Definition of a “Business”

An Integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.



# IFRS 3 Business Combinations

## THE ACQUISITION METHOD

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

### STEP 1: IDENTIFYING THE 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 4: RECOGNISING AND MEASURING GOODWILL OR A GAIN FROM 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, which 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 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.

### MEASUREMENT PERIOD

Applies when initial accounting is incomplete at the end of the reporting period in which the business combination occurs. Measurement period ends when acquirer receives information seeking about facts and circumstances at acquisition date, not to exceed one year from acquisition date.

### DETERMINING WHAT IS PART OF THE BUSINESS COMBINATION TRANSACTION

The acquirer should consider if the consideration includes amounts attributable to other transactions within the contract (pre-existing relationship, arrangements that remunerate employees etc.).

#### Acquisition and other 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.

### STEP 3: RECOGNISING AND MEASURING THE IDENTIFIABLE ASSETS ACQUIRED, THE LIABILITIES ASSUMED AND ANY NON-CONTROLLING INTEREST (NCI) IN THE ACQUIREE

- ▶ As of the acquisition date, the acquirer recognises, 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 that represent 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 TO PARTICULAR TYPES OF BUSINESS COMBINATIONS

### BUSINESS COMBINATION ACHIEVED IN STAGES

- ▶ 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. Any resulting gain/loss is recognised in profit or loss.

### BUSINESS COMBINATION ACHIEVED 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.

# Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

Alternatively, please visit [www.bdo.global](http://www.bdo.global) where you can find full lists of regional and country contacts.



## EUROPE

Anne Catherine Farlay	 France	<a href="mailto:annecatherine.farlay@bdo.fr">annecatherine.farlay@bdo.fr</a>
Jens Freiberg	 Germany	<a href="mailto:jens.freiberg@bdo.de">jens.freiberg@bdo.de</a>
Teresa Morahan	 Ireland	<a href="mailto:tmorahan@bdo.ie">tmorahan@bdo.ie</a>
Ehud Greenberg	 Israel	<a href="mailto:ehudg@bdo.co.il">ehudg@bdo.co.il</a>
Stefano Bianchi	 Italy	<a href="mailto:stefano.bianchi@bdo.it">stefano.bianchi@bdo.it</a>
Roald Beumer	 Netherlands	<a href="mailto:roald.beumer@bdo.nl">roald.beumer@bdo.nl</a>
Reidar Jensen	 Norway	<a href="mailto:reidar.jensen@bdo.no">reidar.jensen@bdo.no</a>
Leonid Sidelkovskiy	 Russia	<a href="mailto:L.Sidelkovskiy@bdo.ru">L.Sidelkovskiy@bdo.ru</a>
David Cabaleiro	 Spain	<a href="mailto:david.cabaleiro@bdo.es">david.cabaleiro@bdo.es</a>
René Füglistner	 Switzerland	<a href="mailto:rene.fueglistner@bdo.ch">rene.fueglistner@bdo.ch</a>
Moses Serfaty	 United Kingdom	<a href="mailto:moses.serfaty@bdo.co.uk">moses.serfaty@bdo.co.uk</a>




## SUB SAHARAN AFRICA



Theunis Schoeman	 South Africa	<a href="mailto:tschoeman@bdo.co.za">tschoeman@bdo.co.za</a>
------------------	--	--

## NORTH AMERICA & CARIBBEAN







Armand Capisciolto	 Canada	<a href="mailto:acapisciolto@bdo.ca">acapisciolto@bdo.ca</a>
Wendy Hambleton	 USA	<a href="mailto:whambleton@bdo.com">whambleton@bdo.com</a>


## LATIN AMERICA

Marcello Canetti	 Argentina	<a href="mailto:mcanetti@bdoargentina.com">mcanetti@bdoargentina.com</a>
Victor Ramirez	 Colombia	<a href="mailto:vramirez@bdo.com.co">vramirez@bdo.com.co</a>
Ernesto Bartesaghi	 Uruguay	<a href="mailto:ebartesaghi@bdo.com.uy">ebartesaghi@bdo.com.uy</a>

Arshad Gadit	 Bahrain	<a href="mailto:arshad.gadit@bdo.bh">arshad.gadit@bdo.bh</a>
Antoine Gholam	 Lebanon	<a href="mailto:agholam@bdo-lb.com">agholam@bdo-lb.com</a>

## ASIA PACIFIC

Aletta Boshoff	 Australia	<a href="mailto:aletta.boshoff@bdo.com.au">aletta.boshoff@bdo.com.au</a>
Hu Jian Fei	 China	<a href="mailto:hu.jianfei@bdo.com.cn">hu.jianfei@bdo.com.cn</a>
Fanny Hsiang	 Hong Kong	<a href="mailto:fannyhsiang@bdo.com.hk">fannyhsiang@bdo.com.hk</a>
Pradeep Suresh	 India	<a href="mailto:pradeepsuresh@bdo.in">pradeepsuresh@bdo.in</a>
Khoon Yeow Tan	 Malaysia	<a href="mailto:tanky@bdo.my">tanky@bdo.my</a>
Ng Kian Hui	 Singapore	<a href="mailto:kianhui@bdo.com.sg">kianhui@bdo.com.sg</a>



This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BV, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BV, a limited liability company incorporated in Belgium with its statutory seat in Zaventem.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BV, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2021 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

[www.bdo.global](http://www.bdo.global)