

This extract has been prepared by IASC Foundation staff and has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.

IFRS 3 *Business Combinations*

The objective of this IFRS is to specify the financial reporting by an entity when it undertakes a *business combination*.

A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree. If an entity obtains control of one or more other entities that are not businesses, the bringing together of those entities is not a business combination.

This IFRS:

- (a) requires all business combinations within its scope to be accounted for by applying the purchase method.
- (b) requires an acquirer to be identified for every business combination within its scope. The acquirer is the combining entity that obtains control of the other combining entities or businesses.
- (c) requires an acquirer to measure the cost of a business combination as the aggregate of: the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus any costs directly attributable to the combination.
- (d) requires an acquirer to recognise separately, at the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the following recognition criteria at that date, regardless of whether they had been previously recognised in the acquiree's financial statements:
 - (i) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
 - (ii) in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably; and
 - (iii) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.
- (e) requires the identifiable assets, liabilities and contingent liabilities that satisfy the above recognition criteria to be measured initially by the acquirer at their fair values at the acquisition date, irrespective of the extent of any minority interest.
- (f) requires goodwill acquired in a business combination to be recognised by the acquirer as an asset from the acquisition date, initially measured as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised in accordance with (d) above.
- (g) prohibits the amortisation of goodwill acquired in a business combination and instead requires the goodwill to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired, in accordance with IAS 36 *Impairment of Assets*.

- (h) requires the acquirer to reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the business combination if the acquirer's interest in the net fair value of the items recognised in accordance with (d) above exceeds the cost of the combination. Any excess remaining after that reassessment must be recognised by the acquirer immediately in profit or loss.
- (i) requires disclosure of information that enables users of an entity's financial statements to evaluate the nature and financial effect of:
 - (i) business combinations that were effected during the period;
 - (ii) business combinations that were effected after the balance sheet date but before the financial statements are authorised for issue; and
 - (iii) some business combinations that were effected in previous periods.
- (j) requires disclosure of information that enables users of an entity's financial statements to evaluate changes in the carrying amount of goodwill during the period.

A business combination may involve more than one exchange transaction, for example when it occurs in stages by successive share purchases. If so, each exchange transaction shall be treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the acquirer's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognise any adjustments to those provisional values as a result of completing the initial accounting:

- (a) within twelve months of the acquisition date; and
- (b) from the acquisition date.