IFRS 3 BUSINESS COMBINATIONS

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard unless otherwise stated.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IFRS 3 was reissued in January 2008 and is applicable for annual reporting periods commencing on or after 1 July 2009.

OBJECTIVE

The objective of IFRS 3 is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, IFRS 3 establishes principles and requirements for how the acquirer:

a. recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
b. recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
c. determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

SCOPE

IFRS 3 applies to a transaction or other event that meets the definition of a business combination.

IFRS 3 does not apply to:

- the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- the acquisition of an asset or a group of assets that does not constitute a business
- a combination of entities or businesses under common control

PRESCRIBED ACCOUNTING TREATMENT

Identifying a business combination

Entities determine whether a transaction or other event is a business combination by applying the definition in IFRS 3 which requires that the assets acquired and the liabilities assumed constitute a business.

If the assets acquired are not a business, the reporting entity accounts for the transaction or other event as an asset acquisition.

Recognition and measurement

Each business combination should be accounted for by using the acquisition method which involves:

a. identifying the acquirer;

b. determining the acquisition date;

c. recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and

d. recognising and measuring goodwill or a gain from a bargain purchase.

Identifying the acquirer

One of the combining entities is identified as the acquirer for each business combination.

The guidance in IFRS 10 *Consolidated Financial Statements* is used to identify the acquirer – the entity that obtains control of the acquiree.

Instances where identification of the acquirer is not straightforward include:

- *Reverse acquisitions* involving one entity (usually a listed entity) purchasing the ownership interests in another (unlisted) entity with the listed company's equity as purchase consideration. Legally, the first entity would be the acquirer. However under IFRS 3 the second entity is the acquirer if it has the power, by virtue of its shareholding in the listed company, to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities. In this case, the second entity is usually the larger entity.
- *Creation of a new entity to issue equity to effect the business combination*: one of the existing combining entities must be identified as the acquirer rather than the new entity.
- *Combination of more than two entities* where one of the combining entities must be identified as the acquirer.

Determining the acquisition date

The acquirer identifies the acquisition date which is the date on which it obtains control of the acquiree.

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

As of acquisition date, the acquirer recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must:

- meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* at the acquisition date.
- be part of what the acquirer and acquiree (or its former owners) exchanged in the business combination transaction rather than as the result of separate or pre-existing transactions.

The identifiable assets acquired and the liabilities assumed are measured at their acquisition-date fair values.

There are some exceptions to the recognition and measurement principles as noted below:

- contingent liabilities (recognition)
- income taxes (recognition and measurement)
- employee benefits (recognition and measurement)
- indemnification assets (recognition and measurement)
- reacquired rights (measurement)
- share-based payment transactions (measurement)
- assets held for sale (measurement)

Recognising and measuring goodwill or a gain from a bargain purchase.

Goodwill is recognised as at the acquisition date and is measured at the excess of (a) over (b) where:

a. is the aggregate of:

   i. the consideration transferred, measured in accordance with IFRS 3, which generally requires acquisition-date fair value;

   ii. the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3 and

   iii. in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and

b. the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3.

Where an acquirer makes a bargain purchase, where the consideration is less than the net assets acquired; the acquirer reassesses the fair values of assets and liabilities acquired. If it is still a bargain purchase then the excess is recognised immediately in profit or loss on the acquisition date.

Consideration transferred
The consideration transferred in a business combination is measured at fair value, which is the sum of the acquisition date fair values of the:

- assets transferred by the acquirer
- the liabilities incurred by the acquirer to former owners of the acquiree
- the equity interests issued by the acquiree
- contingent consideration

Non-standard business combinations
Further guidance is provided in IFRS 3 on the following types of business combinations:

- business combination achieved in stages
- business combination achieved without the transfer of consideration

Measurement period
Where an acquirer has been unable to complete the initial accounting for a business combination by the end of the reporting period in which the combination occurred – provisional accounting shall be used.

During this measurement period, the acquirer retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable.

The measurement period does not exceed one year from the acquisition date.

After the measurement period ends, an acquirer can make adjustments to correct errors in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Acquisition costs
Acquisition costs are recorded as expenses in the periods in which the costs are incurred and the services are received, except for costs to issue debt or equity securities.

Costs to be expensed include:

- finder's fees
- legal fees
- valuation fees
- general administrative costs

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IFRS 3 disclosure requirements.

DEFINITIONS

Term	Definition
Acquiree	The business or businesses that the acquirer obtains control of in a business combination.
Acquirer	The entity that obtains control of the acquiree.
Acquisition date	The date on which the acquirer obtains control of the acquiree.
Business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.
Business combination	A transaction or other events in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in IFRS 3.
Contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.
Equity interests	For the purpose of IFRS 3, equity interests is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Goodwill	An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.
Non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent.
Owners	For the purpose of IFRS 3, owners is used broadly to include holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 3 B*usiness Combinations* and is applicable for annual reporting periods commencing on or after 1 July 2009.

Additional scope exemption

A restructure of administrative arrangements, as defined in Appendix A of AASB 1004 *Contributions*, is outside the scope of AASB 3.

Restructures of local governments

Where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement:

- the transferee local government recognises assets and liabilities and any gain or loss
- they are recognised initially at the amounts at which the assets were recognised by the transferor local government as at the date of the transfer, or at their fair values

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB *1053 Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text. Additional disclosure requirements that are applicable to RDR entities only are included in a separate table in Appendix 1.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 3.59	If the entity was the acquiring party in a business combination, has information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either: a. during the current reporting period; or b. after the end of the reporting period but before the financial statements are authorised for issue; been disclosed?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 3 B64	To give effect to the paragraph IFRS 3.59 above, has the acquirer disclosed the following information for each business combination that was effected during the period: a. the name and description of the acquiree; b. the acquisition date; c. the percentage of voting equity interests acquired; d. primary reasons behind the business combination and a description of how the acquirer obtained control of the acquiree; e. a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors; f. the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as: i. cash; ii. other tangible or intangible assets, including a business or subsidiary of the acquirer; iii. liabilities incurred, for example, a liability for contingent consideration; and iv. equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests. g. for contingent consideration arrangements and indemnification assets: i. the amount recognised as of the acquisition date; ii. a description of the arrangement and the basis for determining the amount of the payment; and iii. an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact. h. for acquired receivables: i. the fair value of the receivables; ii. the gross contractual amounts receivable; and iii. the best estimate at the acquisition date of the contractual cash flows not expected to be collected.		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
	The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables. i. the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed. j. for each contingent liability recognised in accordance with paragraph 23, the information required in paragraph 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose: i. the information required by paragraph 86 of IAS 37; and ii. the reasons why the liability cannot be measured reliably. k. the total amount of goodwill that is expected to be deductible for tax purposes; l. for transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination in accordance with paragraph 51: i. a description of each transaction; ii. how the acquirer accounted for each transaction; iii. the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and iv. if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount. m. the disclosure of separately recognised transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of comprehensive income in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed. n. in a bargain purchase (see paragraphs 34-36): i. the amount of any gain recognised in accordance with paragraph 34 and the line item in the statement of comprehensive income in which the gain recognised; and ii. a description of the reasons why the transaction resulted in a gain.		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
	o. for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date: i. the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and ii. for each non-controlling interest in an acquiree measured at fair value, the valuation technique(s) and inputs used for determining that value. p. in a business combination achieved in stages: i. the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and ii. the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42) and the line item in the statement of comprehensive income in which that gain or loss is recognised. q. the following information: i. the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and ii. the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term 'impracticable' with the same meaning as in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*		
IFRS 3 B65	For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph B64(e)-(q).		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 3 B66	If the acquisition date of a business combination is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer shall disclose the information required by paragraph B64 unless the initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue. In that situation, has the acquirer described which disclosures could not be made and the reasons why they cannot be made?		
IFRS 3.61	Has the acquirer disclosed information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods?		
IFRS 3 B67	To meet the objective in paragraph 61, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively: a. if the initial accounting for a business combination is incomplete (see paragraph 45) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the business combination thus have been determined only provisionally: i. the reasons why the initial accounting for the business combination is incomplete; ii. the assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and iii. the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 49. b. for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires: i. any changes in the recognised amounts, including any differences arising upon settlement; ii. any changes in the range of outcomes (undiscounted) and the reasons for those changes; and iii. the valuation techniques and key model inputs used to measure contingent consideration.		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
	c. for contingent liabilities recognised in a business combination, the acquirer shall disclose the information required by paragraphs 84 and 85 of IAS 37 for each class of provision. d. a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately: i. the gross amount and accumulated impairment losses at the beginning of the reporting period. ii. additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*s. iii. adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph 67. iv. goodwill included in a disposal group classified as held for sale in accordance with IFRS 5 and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale. v. impairment losses recognised during the reporting period in accordance with IAS 36. (IAS 36 *Impairment of Assets* requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.) vi. net exchange rate differences arising during the reporting period in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates.* vii. any other changes in the carrying amount during the reporting period. viii. the gross amount and accumulated impairment losses at the end of the reporting period. e. the amount and an explanation of any gain or loss recognised in the current reporting period that both: i. relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period; and ii. is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.		
IFRS 3.63	If the specific disclosures required by this and other IFRSs do not meet the objectives set out in paragraphs 59 and 61 of IFRS 3, the acquirer shall disclose whatever additional information is necessary to meet those objectives.		

ADDITIONAL DISCLOSURE REQUIREMENTS APPLICABLE TO RDR ENTITIES ONLY

CODE		YES / NO / N/A	EXPLANATION (*If required*)
AASB 3. RDRB65.1	For individually immaterial business combinations occurring during the reporting period that are material collectively, has the entity disclosed in aggregate the information required by paragraphs B64(f), B64(g), B64(i), B64(n)(i), B64(o)(i) and B64(p) and the first sentence of paragraph B64(j)?		
AASB 3. RDRB67.1	An entity applying RDR is not required to disclose the reconciliation specified in paragraph B67(d) for prior periods.		

OTHER MATTERS

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