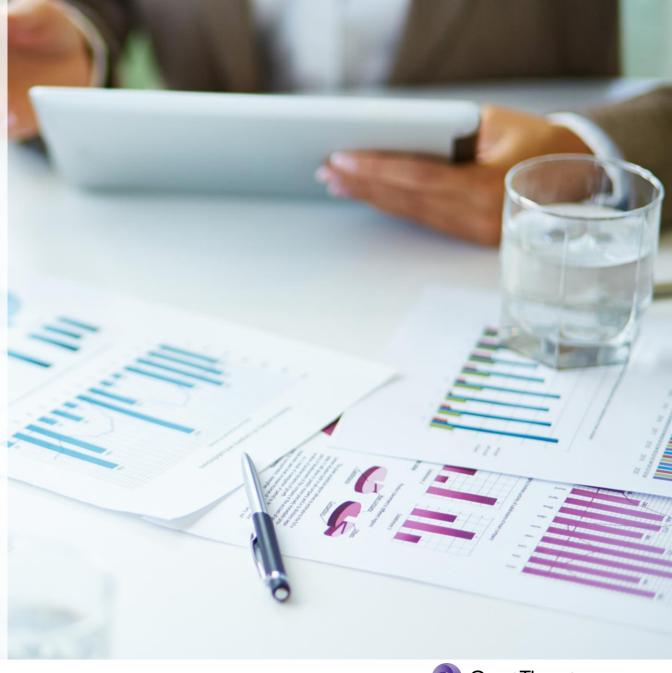


Mergers and acquisitions are becoming more and more common as entities aim to achieve their growth objectives. IFRS 3 'Business Combinations' contains the requirements for these transactions, which are challenging in practice.

In order to determine if the guidance of IFRS 3 should be applied to the acquisition of an asset or a group of assets, an entity should first identify if the asset or group of assets acquired represents a business combination. If the entity concludes it is a business combination, it should then ensure the business combination transaction falls within the scope of IFRS 3. This newsletter sets out how an entity should determine if the transaction is a business combination, and whether it is within the scope of IFRS 3.



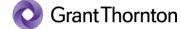


## Identifying a business combination

IFRS 3 refers to a 'business combination' rather than more commonly used phrases such as takeover, acquisition or merger because the objective is to encompass all the transactions in which an acquirer obtains control over an acquiree no matter how the transaction is structured. A business combination is defined as a transaction or other event in which an acquirer (an investor entity) obtains control of one or more businesses.

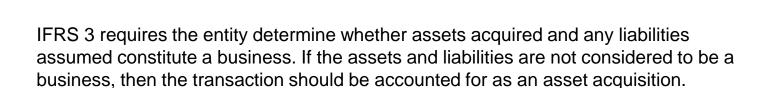
An entity's purchase of a controlling interest in another unrelated operating entity will usually be a business combination. However, a business combination may be structured, and an entity may obtain control of that structure, in a variety of ways.





# Is the investee a 'business'?





Business combination accounting does not apply to the acquisition of an asset or asset group that does not constitute a business. The distinction between a business combination and an asset acquisition is important as the accounting for an asset purchase differs from business combination accounting in several key respects.



# 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.



## Has control been obtained?

A business combination involves an entity obtaining control over one or more businesses (this entity is known as 'the acquirer'). IFRS 10 'Consolidated Financial Statements' and IFRS 3 provide guidance to determine whether an entity has obtained control.

In most cases, control of an investee is obtained through holding the majority of voting rights. Therefore control is normally obtained through ownership of a majority of the shares that confer voting rights (or through obtaining additional voting rights resulting in majority ownership if some were already held). In transactions where an acquired business is not a separate legal entity (a trade and assets deal), control typically arises through ownership of those assets.

However, control can also be obtained through various other transactions and arrangements – some of which require careful analysis and judgement. The definition of control and relevant guidance issued by both the IASB and IFRIC should then be considered.





# Is the business combination within the scope of IFRS 3?

IFRS 3 applies to all business combinations identified as such under IFRS 3 with the following three exceptions:



The formation of a joint arrangement in the financial statements of the joint arrangement itself



A combination of entities or businesses under common control (referred to as common control combinations)



The acquisition by an investment entity, as defined in IFRS 10, of an investment in a subsidiary that is required to be measured at fair value through profit or loss (without exception).











## Insights into IFRS 3



## Identifying a business combination within the scope of IFRS 3

Mergers and acquisitions are becoming more and more common as entities aim to achieve their growth objectives. IFRS 3 "Business Combinations" contains the requirements for these transactions, which are challenging in practice.

Our Trieights into IFRS 3' series automatises the key areas of the Standard, highlighting aspects that are more difficult to interpret and revisiting the most relevant features that could invest over features.

In order to determine if the guidance of FRS 3 should be applied to the organization of an exast or a group of exasts, on entity should find starting if the same or group of exasts cognited represents a business combination. If the entity concludes it is to suburiess combination, it should then exasts the business combination, to should then exasts the business combination transaction false within exasts the business combination transaction false within exasts. So like articles such only on anitity should determine if the transaction to business combination, and whether it is within the scope of FRS 3.

This criticle should be read closely with our other "identification" criticles:

Ineights into IFRS 3 - Identifying an acquirer
Ineights into IFRS 3 - Identifying the acquietion date



## Our full publication on "Insights into IFRS 3"

For full information of our insights into IFRS 3, please read our full report in English at the following link:

View the publication here



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