

IFRS 3

BUSINESS COMBINATION

Key objective of IFRS 3 is to **assist an acquirer** in a business combination to:

Recognises and measures in its financial statements the assets and liabilities acquired,

Recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase;
and

Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This IFRS do **not apply** to a combination of entities or businesses under common control (mutual entities).

Business combination- A transaction or other event in which an acquirer obtains control of one or more businesses (bringing together of separate entities into one reporting entity).

Acquirer -The entity that obtains control of the acquiree.

Acquiree -The business or businesses that the acquirer obtains control of in a business combination.

Acquisition date- The date on which the acquirer obtains control of the acquiree.

Fair value- is 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.

The **core principle**:

An acquirer **measures the cost of the acquisition** at the **fair value of the consideration paid** (eg equity instrument issued as consideration);

allocates that cost to the acquired identifiable assets and liabilities on the basis of their fair values; allocates the rest of the cost to goodwill; and

recognises any excess of acquired assets and liabilities over the consideration paid (a '**bargain purchase**') in profit or loss immediately.

To qualify for **recognition**, 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.

The acquirer shall **measure** the identifiable assets acquired and the liabilities assumed **at their acquisition-date fair values**.