

IFRS3

• ACQUISITION DATE

1. Date on which control is obtained.
2. Usually the legal transfer date.
3. It can be a different date based on suspensive conditions / events before transfer dates

• DEFINITION OF A BUSINESS

1. Control as per IFRS10.
2. IFRS3 - Inputs and processes applied to those inputs that have the ability to create outputs. However outputs are not specifically required.

• INPUTS

Any economic resource that creates/ has the ability to create outputs when 1/ more process is applied to it. Therefore, assess what is being put INTO the business.

• PROCESS

A system / protocol / standard or rule that is applied to the inputs in order to generate a specific output. Therefore, assess what is being done to the resources put INTO the business

• IDENTIFYING THE ACQUIRER

- The entity obtaining control.
- IFRS10 should be applied.
- NB - Potential voting rights are considered if there is practical ability to exercise the right

• THE ACQUISITION METHOD

1. Identify the acquirer.
2. Determine the acquisition date.
3. Recognise and measure identifiable assets, liabilities and NCI.
4. Recognise and measure Goodwill / Gain from Bargain Purchase.

• INTEGRATED SET OF ACTIVITIES

- When no output is identifiable consider:
1. If principal activities were started.
 2. Identifiable inputs and processes.
 3. Pursuit of a plan to produce outputs
 4. Ability to access customers to purchase outputs.

• OUTPUT

The results from the processes applied to the inputs. This can be in the form of dividends, lower cost or economic benefits to stakeholders.

RECOGNITION AND MEASUREMENT

• LIFE SAVER TIPS

1. Draw a Time line of all the significant events.
2. Remember deferred tax rules! It always applies.
3. FV increase - Credit Equity

• DISCUSSION TIPS

1. Apply the definition line by line.
2. Always say WHY the case study does or does not meet criteria.
3. Use your standards flow chart as guidance.

• GENERAL PRINCIPLE

1. All identifiable assets and liabilities at acquisition date should be recognized.
2. These are all measured at acquisition date fair values.

• GOODWIL / GAIN ON BARGAIN PURCHASE

Consideration transferred + NCI - Net Assets = Goodwil / (Bargain Purchase)

• SUBSEQUENT MEASUREMENT

- Reacquired Right - Recognized as Intangible Asset.
- Contingent liabilities - Higher of IAS37 and initial amount less IFRS15 revenue.
- Indemnification assets - FV
- Contingent Consideration - FV (Unless equity then not remeasured)

• MEASUREMENT PERIOD

1. Adjustments to FVs can be made over the measurement period. (retrospectively).
2. Limited to 12 months.

• STEP ACQUISITION

1. Remeasure prior interest to FV on acquisition date.
2. Derecognise OCI reserve as if IFRS9 investment was disposed off.
3. Forms part of the FV

• CONSIDERATION TRANSFERRED

1. Assets transferred + Liabilities incurred to former owners + equity interests issued.
2. Contingent consideration (at FV)

NB - Acquisition related costs are expensed as and when they are incurred.

ADVANCED ASPECTS

- **THE GOLDEN RULE**
 1. In real life people **do not overpay** so always do a logic check on values such as:
 - Calculated Goodwill
 - Calculated bargain purchase
 - FV adjustment

- **INTANGIBLE ASSETS**
 1. Apply the acquisition date FV.
 2. Must have a probability of future economic benefits.
 3. Must be separately identifiable or through a contract / legal right.

- **CONTINGENT LIABILITIES**
 1. Recognized if there is a **present obligation** from **past events** and **FV** can be measured reliably.

- **LEASES**
 1. Measure lease liability and RoUA as if it was a new lease.
 2. Adjust RoUA for favorable / unfavorable market conditions.RoUA - Right of Use Asset.

ADVANCED ASPECTS

- **GOODWILL**
 - Goodwill acquired in a business combination will **not be amortized**.
 - **Annual Impairment** testing is required:
 1. Determine the CGU (Subsidiary) CA at year-end.
 2. Calculate the Recoverable amount.
 3. Recognize impairment through profit / loss.

- **KEY LEASES RULES**
 1. When the acquirer is the lessee the following needs to happen:
 - The lease liability needs to be derecognized.
 - The RoUA needs to be derecognized.
 - PPE principles should be applied to the asset acquired.

- **KEY FV RULES**

NB - Whenever the FV is adjusted for **Current Assets** you need to consider when they are **subsequently sold** as then you need to **reverse** the FV adjustment

- **FAIR VALUE JOURNAL**
 1. Increase:
 - Dt Asset (SFP)
 - Ct Equity at Acquisition (SCE)
 - CT Deferred tax (SFP)
 2. A decrease is the inverse

NB - Acquisition related costs are expensed as and when they are incurred.