

FACTS SHEET Business Combinations



FACT 1: Objective and Scope of IFRS 3

IFRS 3 specifies 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 is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree.

FACT 2: IFRS 3 – Requirements

The Standard requires the following:

- All business combinations to be accounted for by applying the purchase method.
- Identifying an acquirer for every business combination, thus the entity obtaining control.
- An acquirer to measure the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets, liabilities, equity instruments and costs directly attributable to the business combination.
- To recognise separately, at the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities, to be measured at their fair value.
- Goodwill acquired in the business combination to be recognised as an asset from the acquisition date. The amortisation of goodwill is prohibited. Instead an annual impairment test should be performed.
- Disclosure of information that enables users to evaluate the nature and financial effect of the business combination and changes in the carrying amount of goodwill.

FACT 3: IFRS 3 Disclosures

- Names and descriptions of the combining entities or businesses
- The acquisition date.
- Percentage of the voting shares acquired.
- Cost of acquisition.
- Fair value of assets and liabilities at acquisition.
- Contingently issuable shares.
- Credit to income statement (shortfall between purchase price and fair value of assets and liabilities).
- The reason why goodwill is paid.
- Post-acquisition profits of subsidiaries acquired.
- Notional full year group revenue and profits.

FACT 4: Tax Implications

There are various significant tax implications to be considered when entering into a business combination. Most of these are complex tax areas and are just highlighted for the sake of awareness. However to ensure that tax is duly considered it is advisable that the assistance of a tax expert is obtained.

These areas mainly include:

- Asset-for-share transactions (section 42), relief available in certain instances and anti-avoidance provision.
- Amalgamation transactions (section 44) with its relief and anti-avoidance provision.
- Intra-group transactions (section 45), with its relief and anti-avoidance provision.
- Unbundling transactions (section 46), requirements for unbundling and relief.
- Liquidation, winding-up and deregistration (section 47), with relief and anti-avoidance provision.