Determining whether a transaction is a business combination for the IFRS 3

IFRS 3 provides additional guidance on determining whether a transaction meets the definition of a business combination, and so accounted for in accordance with its requirements.

This guidance includes:

- Business combinations can occur in various ways, such as:
  - By transferring cash,
  - Incurring liabilities,
  - Issuing equity instruments
  - Or by not issuing consideration at all by contract alone.

- Business combinations can be structured in various ways to satisfy legal, taxation or other objectives, including:
  - One entity becoming a subsidiary of another,
  - The transfer of net assets from one entity to another
  - Or to a new entity.

- The business combination must involve the acquisition of a business, which generally has three elements:
  - Inputs - an economic resource like non-current assets or intellectual property that creates outputs when one or more processes are applied to it.
  - Process - a system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs like strategic management, operational processes, or resource management.
  - Output - the result of inputs and processes applied to those inputs.

Acquisition method

The acquisition method, called the 'purchase method' in the 2004 version of IFRS 3, is used for all business combinations.

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Steps in applying the acquisition method are:

1. Identification of the 'acquirer'
2. Determination of the 'acquisition date'
3. Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest (NCI, formerly called minority interest) in the acquire
4. Recognition and measurement of goodwill or a gain from a bargain purchase

REFERENCE:
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Staff Editor. January 1, 2022.
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https://www.iasplus.com/en/standards/ifrs/ifrs3