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IFRS 3 Illustrative Examples and US GAAP Comparison

ILLUSTRATIVE EXAMPLES
AND COMPARISON WITH SFAS 141(R)

IFRS 3 Business Combinations

International
Accounting Standards
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IFRS 3 Business Combinations

Illustrative Examples

Comparison with SFAS 141(R)

Table of Concordance

(incorporating editorial corrections at 21 January 2008)

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IFRS 3 *Business Combinations*

Illustrative examples

These examples accompany, but are not part of, IFRS 3.

Reverse acquisitions

Illustrating the consequences of recognising a reverse acquisition by applying paragraphs B19–B27 of IFRS 3.

IE1 This example illustrates the accounting for a reverse acquisition in which Entity B, the legal subsidiary, acquires Entity A, the entity issuing equity instruments and therefore the legal parent, in a reverse acquisition on 30 September 20X6. This example ignores the accounting for any income tax effects.

IE2 The statements of financial position of Entity A and Entity B immediately before the business combination are:

	Entity A (legal parent, accounting acquiree)	**Entity B** (legal subsidiary, accounting acquirer)
	CU	**CU**
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
Retained earnings	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

IE3 This example also uses the following information:

(a) On 30 September 20X6 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. All of Entity B's shareholders exchange their shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

(b) The fair value of each ordinary share of Entity B at 30 September 20X6 is CU40. The quoted market price of Entity A's ordinary shares at that date is CU16.

(c) The fair values of Entity A's identifiable assets and liabilities at 30 September 20X6 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at 30 September 20X6 is CU1,500.

Calculating the fair value of the consideration transferred

IE4 As a result of Entity A (legal parent, accounting acquiree) issuing 150 ordinary shares, Entity B's shareholders own 60 per cent of the issued shares of the combined entity (ie 150 of 250 issued shares). The remaining 40 per cent are owned by Entity A's shareholders. If the business combination had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity B's shareholders would then own 60 of the 100 issued shares of Entity B—60 per cent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is CU1,600 (40 shares with a fair value per share of CU40).

IE5 The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted market price of Entity A's shares provides a more reliable basis for measuring the consideration effectively transferred than the estimated fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares—100 shares with a fair value per share of CU16.

Measuring goodwill

IE6 Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognised identifiable assets and liabilities, as follows:

	CU	CU
Consideration effectively transferred		1,600
Net recognised values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	
Non-current liabilities	(400)	(1,300)
Goodwill		300

Consolidated statement of financial position at 30 September 20X6

IE7 The consolidated statement of financial position immediately after the business combination is:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	1,500
Total liabilities	2,400
Shareholders' equity	
Retained earnings	1,400
Issued equity	
250 ordinary shares [CU600 + CU1,600]	2,200
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE8 The amount recognised as issued equity interests in the consolidated financial statements (CU2,200) is determined by adding the issued equity of the legal subsidiary immediately before the business combination (CU600) and the fair value of the consideration effectively transferred (CU1,600). However, the equity structure appearing in the consolidated financial statements (ie the number and type of equity interests issued) must reflect the equity structure of the legal parent, including the equity interests issued by the legal parent to effect the combination.

Earnings per share

IE9 Assume that Entity B's earnings for the annual period ended 31 December 20X5 were CU600 and that the consolidated earnings for the annual period ended 31 December 20X6 were CU800. Assume also that there was no change in the number of ordinary shares issued by Entity B during the annual period ended 31 December 20X5 and during the period from 1 January 20X6 to the date of the reverse acquisition on 30 September 20X6. Earnings per share for the annual period ended 31 December 20X6 is calculated as follows:

Number of shares deemed to be outstanding for the period from 1 January 20X6 to the acquisition date (ie the number of ordinary shares issued by Entity A (legal parent, accounting acquiree) in the reverse acquisition)	150
Number of shares outstanding from the acquisition date to 31 December 20X6	250
Weighted average number of ordinary shares outstanding [(150 x 9/12) + (250 x 3/12)]	175
Earnings per share [800/175]	CU4.57

IE10 Restated earnings per share for the annual period ended 31 December 20X5 is CU4.00 (calculated as the earnings of Entity B of 600 divided by the number of ordinary shares Entity A issued in the reverse acquisition (150)).

Non-controlling interest

IE11 Assume the same facts as above, except that only 56 of Entity B's 60 ordinary shares are exchanged. Because Entity A issues 2.5 shares in exchange for each ordinary share of Entity B, Entity A issues only 140 (rather than 150) shares. As a result, Entity B's shareholders own 58.3 per cent of the issued shares of the combined entity (140 of 240 issued shares). The fair value of the consideration transferred for Entity A, the accounting acquiree, is calculated by assuming that the combination had been effected by Entity B issuing additional ordinary shares to the shareholders of Entity A in exchange for their ordinary shares in Entity A. That is because Entity A is the accounting acquirer, and paragraphs 37 and 38 of IFRS 3 require the acquirer to measure the consideration exchanged for the accounting acquiree.

IE12 In calculating the number of shares that Entity B would have had to issue, the non-controlling interest is excluded from the calculation. The majority shareholders own 56 shares of Entity B. For that to represent a 58.3 per cent equity interest, Entity B would have had to issue an additional 40 shares. The majority shareholders would then own 56 of the 96 issued shares of Entity B and, therefore, 58.3 per cent of the combined entity. As a result, the fair value of the consideration transferred for Entity A, the accounting acquiree, is CU1,600 (ie 40 shares, each with a fair value of CU40). That is the same amount as when all 60 of Entity B's shareholders tender all 60 of its ordinary shares for exchange. The recognised amount of the group's interest in Entity A, the accounting acquiree, does not change if some of Entity B's shareholders do not participate in the exchange.

IE13 The non-controlling interest is represented by the four shares of the total 60 shares of Entity B that are not exchanged for shares of Entity A. Therefore, the non-controlling interest is 6.7 per cent. The non-controlling interest reflects the proportionate interest of the non-controlling shareholders in the pre-combination carrying amounts of the net assets of Entity B, the legal subsidiary. Therefore, the consolidated statement of financial position is adjusted to show a non-controlling interest of 6.7 per cent of the pre-combination carrying amounts of Entity B's net assets (ie CU134 or 6.7 per cent of CU2,000).

IE14 The consolidated statement of financial position at 30 September 20X6, reflecting the non-controlling interest is as follows:

			CU
Current assets [CU700 + CU500]			1,200
Non-current assets [CU3,000 + CU1,500]			4,500
Goodwill			300
	Total assets		6,000
Current liabilities [CU600 + CU300]			900
Non-current liabilities [CU1,100 + CU400]			1,500
	Total liabilities		2,400
Shareholders' equity			
	Retained earnings [CU1,400 x 93.3 per cent]		1,306
	Issued equity		
		240 ordinary shares [CU560 + CU1,600]	2,160
	Non-controlling interest		134
	Total shareholders' equity		3,600
		Total liabilities and shareholders' equity	6,000

IE15 The non-controlling interest of CU134 has two components. The first component is the reclassification of the non-controlling interest's share of the accounting acquirer's retained earnings immediately before the acquisition (CU1,400 × 6.7 per cent or CU93.80). The second component represents the reclassification of the non-controlling interest's share of the accounting acquirer's issued equity (CU600 × 6.7 per cent or CU40.20).

Identifiable intangible assets

Illustrating the consequences of applying paragraphs 10–14 and B31–B40 of IFRS 3.

IE16 The following are examples of identifiable intangible assets acquired in a business combination. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.

IE17 Intangible assets identified as having a contractual basis are those that arise from contractual or other legal rights. Those designated as having a non-contractual basis do not arise from contractual or other legal rights but are separable. Intangible assets identified as having a contractual basis might also be separable but separability is not a necessary condition for an asset to meet the contractual-legal criterion.

Marketing-related intangible assets

IE18 Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

Class	Basis
Trademarks, trade names, service marks, collective marks and certification marks	Contractual
Trade dress (unique colour, shape or package design)	Contractual
Newspaper mastheads	Contractual
Internet domain names	Contractual
Non-competition agreements	Contractual

Trademarks, trade names, service marks, collective marks and certification marks

IE19 Trademarks are words, names, symbols or other devices used in trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.

IE20 Trademarks, trade names, service marks, collective marks and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce or by other means. If it is protected legally through registration or other means, a trademark or other mark acquired in a business combination is an intangible asset that meets the contractual-legal criterion. Otherwise, a trademark or other mark acquired in a business combination can be recognised separately from goodwill if the separability criterion is met, which normally it would be.

IE21 The terms *brand* and *brand name*, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. IFRS 3 does not preclude an entity from recognising, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

Internet domain names

IE22 An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired in a business combination meets the contractual-legal criterion.

Customer-related intangible assets

IE23 Examples of customer-related intangible assets are:

Class	Basis
Customer lists	Non-contractual
Order or production backlog	Contractual
Customer contracts and related customer relationships	Contractual
Non-contractual customer relationships	Non-contractual

Customer lists

IE24 A customer list consists of information about customers, such as their names and contact information. A customer list also may be in the form of a database that includes other information about the customers, such as their order histories and demographic information. A customer list does not usually arise from contractual or other legal rights. However, customer lists are often leased or exchanged. Therefore, a customer list acquired in a business combination normally meets the separability criterion.

Order or production backlog

IE25 An order or production backlog arises from contracts such as purchase or sales orders. An order or production backlog acquired in a business combination meets the contractual-legal criterion even if the purchase or sales orders can be cancelled.

Customer contracts and the related customer relationships

IE26 If an entity establishes relationships with its customers through contracts, those customer relationships arise from contractual rights. Therefore, customer contracts and the related customer relationships acquired in a business combination meet the contractual-legal criterion, even if confidentiality or other contractual terms prohibit the sale or transfer of a contract separately from the acquiree.

IE27 A customer contract and the related customer relationship may represent two distinct intangible assets. Both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ.

IE28 A customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Customer relationships meet the contractual-legal criterion if an entity has a practice of establishing contracts with its customers, regardless of whether a contract exists at the acquisition date. Customer relationships may also arise through means other than contracts, such as through regular contact by sales or service representatives.

IE29 As noted in paragraph IE25, an order or a production backlog arises from contracts such as purchase or sales orders and is therefore considered a contractual right. Consequently, if an entity has relationships with its customers through these types of contracts, the customer relationships also arise from contractual rights and therefore meet the contractual-legal criterion.

Examples

IE30 The following examples illustrate the recognition of customer contract and customer relationship intangible assets acquired in a business combination.

(a) Acquirer Company (AC) acquires Target Company (TC) in a business combination on 31 December 20X5. TC has a five-year agreement to supply goods to Customer. Both TC and AC believe that Customer will renew the agreement at the end of the current contract. The agreement is not separable.

The agreement, whether cancellable or not, meets the contractual-legal criterion. Additionally, because TC establishes its relationship with Customer through a contract, not only the agreement itself but also TC's customer relationship with Customer meet the contractual-legal criterion.

(b) AC acquires TC in a business combination on 31 December 20X5. TC manufactures goods in two distinct lines of business: sporting goods and electronics. Customer purchases both sporting goods and electronics from TC. TC has a contract with Customer to be its exclusive provider of sporting goods but has no contract for the supply of electronics to Customer. Both TC and AC believe that only one overall customer relationship exists between TC and Customer.

The contract to be Customer's exclusive supplier of sporting goods, whether cancellable or not, meets the contractual-legal criterion. Additionally, because TC establishes its relationship with Customer through a contract, the customer relationship with Customer meets the contractual-legal criterion. Because TC has only one customer relationship with Customer, the fair value of that relationship incorporates assumptions about TC's relationship with Customer related to both sporting goods and electronics. However, if AC determines that the customer relationships with Customer for sporting goods and for electronics are separate from each other, AC would assess whether the customer relationship for electronics meets the separability criterion for identification as an intangible asset.

(c) AC acquires TC in a business combination on 31 December 20X5. TC does business with its customers solely through purchase and sales orders. At 31 December 20X5, TC has a backlog of customer purchase orders from 60 per cent of its customers, all of whom are recurring customers. The other 40 per cent of TC's customers are also recurring customers. However, as of 31 December 20X5, TC has no open purchase orders or other contracts with those customers.

Regardless of whether they are cancellable or not, the purchase orders from 60 per cent of TC's customers meet the contractual-legal criterion. Additionally, because TC has established its relationship with 60 per cent of its customers through contracts, not only the purchase orders but also TC's customer relationships meet the contractual-legal criterion. Because TC has a practice of establishing contracts with the remaining 40 per cent of its customers, its relationship with those customers also arises through contractual rights and therefore meets the contractual-legal criterion even though TC does not have contracts with those customers at 31 December 20X5.

(d) AC acquires TC, an insurer, in a business combination on 31 December 20X5. TC has a portfolio of one-year motor insurance contracts that are cancellable by policyholders.

Because TC establishes its relationships with policyholders through insurance contracts, the customer relationship with policyholders meets the contractual-legal criterion. IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets* apply to the customer relationship intangible asset.

Non-contractual customer relationships

IE31 A customer relationship acquired in a business combination that does not arise from a contract may nevertheless be identifiable because the relationship is separable. Exchange transactions for the same asset or a similar asset that indicate that other entities have sold or otherwise transferred a particular type of non-contractual customer relationship would provide evidence that the relationship is separable.

Artistic-related intangible assets

IE32 Examples of artistic-related intangible assets are:

Class	Basis
Plays, operas and ballets	Contractual
Books, magazines, newspapers and other literary works	Contractual
Musical works such as compositions, song lyrics and advertising jingles	Contractual
Pictures and photographs	Contractual
Video and audiovisual material, including motion pictures or films, music videos and television programmes	Contractual

IE33 Artistic-related assets acquired in a business combination are identifiable if they arise from contractual or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognising a copyright intangible asset and any related assignments or licence agreements as a single asset, provided they have similar useful lives.

Contract-based intangible assets

IE34 Contract-based intangible assets represent the value of rights that arise from contractual arrangements. Customer contracts are one type of contract-based intangible asset. If the terms of a contract give rise to a liability (for example, if the terms of an operating lease or customer contract are unfavourable relative to market terms), the acquirer recognises it as a liability assumed in the business combination. Examples of contract-based intangible assets are:

Class	Basis
Licensing, royalty and standstill agreements	Contractual
Advertising, construction, management, service or supply contracts	Contractual
Lease agreements (whether the acquiree is the lessee or the lessor)	Contractual
Construction permits	Contractual
Franchise agreements	Contractual
Operating and broadcast rights	Contractual
Servicing contracts, such as mortgage servicing contracts	Contractual
Employment contracts	Contractual
Use rights, such as drilling, water, air, timber cutting and route authorities	Contractual

Servicing contracts, such as mortgage servicing contracts

IE35 Contracts to service financial assets are one type of contract-based intangible asset. Although servicing is inherent in all financial assets, it becomes a distinct asset (or liability) by one of the following:

(a) when contractually separated from the underlying financial asset by sale or securitisation of the assets with servicing retained;

(b) through the separate purchase and assumption of the servicing.

IE36 If mortgage loans, credit card receivables or other financial assets are acquired in a business combination with servicing retained, the inherent servicing rights are not a separate intangible asset because the fair value of those servicing rights is included in the measurement of the fair value of the acquired financial asset.

Employment contracts

IE37 Employment contracts that are beneficial contracts from the perspective of the employer because the pricing of those contracts is favourable relative to market terms are one type of contract-based intangible asset.

Use rights

IE38 Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are contract-based intangible assets to be accounted for separately from goodwill. Other use rights may have characteristics of tangible assets rather than of intangible assets. An acquirer should account for use rights on the basis of their nature.

Technology-based intangible assets

IE39 Examples of technology-based intangible assets are:

Class	**Basis**
Patented technology	Contractual
Computer software and mask works	Contractual
Unpatented technology	Non-contractual
Databases, including title plants	Non-contractual
Trade secrets, such as secret formulas, processes and recipes	Contractual

Computer software and mask works

IE40 Computer software and program formats acquired in a business combination that are protected legally, such as by patent or copyright, meet the contractual-legal criterion for identification as intangible assets.

IE41 Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection that are acquired in a business combination meet the contractual-legal criterion for identification as intangible assets.

Databases, including title plants

IE42 Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired in a business combination and protected by copyright meets the contractual-legal criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as customer lists, or specialised information, such as scientific data or credit information. Databases that are not protected by copyright can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired in a business combination meets the separability criterion.

IE43 Title plants constitute a historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired in a business combination meet the separability criterion.

Trade secrets, such as secret formulas, processes and recipes

IE44 A trade secret is 'information, including a formula, pattern, recipe, compilation, program, device, method, technique, or process that (a) derives independent economic value, actual or potential, from not being generally known and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.'[*] If the future economic benefits from a trade secret acquired in a business combination are legally protected, that asset meets the contractual-legal criterion. Otherwise, trade secrets acquired in a business combination are identifiable only if the separability criterion is met, which is likely to be the case.

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* Melvin Simensky and Lanning Bryer, *The New Role of Intellectual Property in Commercial Transactions* (New York: John Wiley & Sons, 1998), page 293.

Gain on a bargain purchase

Illustrating the consequences of recognising and measuring a gain from a bargain purchase by applying paragraphs 32–36 of IFRS 3.

IE45 The following example illustrates the accounting for a business combination in which a gain on a bargain purchase is recognised.

IE46 On 1 January 20X5 AC acquires 80 per cent of the equity interests of TC, a private entity, in exchange for cash of CU150. Because the former owners of TC needed to dispose of their investments in TC by a specified date, they did not have sufficient time to market TC to multiple potential buyers. The management of AC initially measures the separately recognisable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of IFRS 3. The identifiable assets are measured at CU250 and the liabilities assumed are measured at CU50. AC engages an independent consultant, who determines that the fair value of the 20 per cent non-controlling interest in TC is CU42.

IE47 The amount of TC's identifiable net assets (CU200, calculated as CU250 – CU50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TC. Therefore, AC reviews the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TC and the consideration transferred. After that review, AC decides that the procedures and resulting measures were appropriate. AC measures the gain on its purchase of the 80 per cent interest as follows:

		CU
Amount of the identifiable net assets acquired (CU250 – CU50)		200
Less: Fair value of the consideration transferred for AC's 80 per cent interest in TC; plus	150	
Fair value of non-controlling interest in TC	42	
		192
Gain on bargain purchase of 80 per cent interest		8

IE48 AC would record its acquisition of TC in its consolidated financial statements as follows:

	CU	CU
Dr Identifiable assets acquired	250	
Cr Cash		150
Cr Liabilities assumed		50
Cr Gain on the bargain purchase		8
Cr Equity—non-controlling interest in TC		42

IE49 If the acquirer chose to measure the non-controlling interest in TC on the basis of its proportionate interest in the identifiable net assets of the acquiree, the recognised amount of the non-controlling interest would be CU40 (CU200 × 0.20). The gain on the bargain purchase then would be CU10 (CU200 − (CU150 + CU40)).

Measurement period

Illustrating the consequences of applying paragraphs 45–50 of IFRS 3.

IE50 If the initial accounting for a business combination is not complete at the end of the financial reporting period in which the combination occurs, paragraph 45 of IFRS 3 requires the acquirer to recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognises adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. Paragraph 49 of IFRS 3 requires the acquirer to recognise such adjustments as if the accounting for the business combination had been completed at the acquisition date. Measurement period adjustments are not included in profit or loss.

IE51 Suppose that AC acquires TC on 30 September 20X7. AC seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and the valuation was not complete by the time AC authorised for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AC recognised a provisional fair value for the asset of CU30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AC received the independent valuation, which estimated the asset's acquisition-date fair value as CU40,000.

IE52 In its financial statements for the year ended 31 December 20X8, AC retrospectively adjusts the 20X7 prior year information as follows:

(a) The carrying amount of property, plant and equipment as of 31 December 20X7 is increased by CU9,500. That adjustment is measured as the fair value adjustment at the acquisition date of CU10,000 less the additional depreciation that would have been recognised if the asset's fair value at the acquisition date had been recognised from that date (CU500 for three months' depreciation).

(b) The carrying amount of goodwill as of 31 December 20X7 is decreased by CU10,000.

(c) Depreciation expense for 20X7 is increased by CU500.

IE53 In accordance with paragraph B67 of IFRS 3, AC discloses:

(a) in its 20X7 financial statements, that the initial accounting for the business combination has not been completed because the valuation of property, plant and equipment has not yet been received.

(b) in its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognised during the current reporting period. Therefore, AC discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.

Determining what is part of the business combination transaction

Settlement of a pre-existing relationship

Illustrating the consequences of applying paragraphs 51, 52 and B50–B53 of IFRS 3.

IE54 AC purchases electronic components from TC under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AC could purchase similar electronic components from another supplier. The supply contract allows AC to terminate the contract before the end of the initial five-year term but only by paying a CU6 million penalty. With three years remaining under the supply contract, AC pays CU50 million to acquire TC, which is the fair value of TC based on what other market participants would be willing to pay.

IE55 Included in the total fair value of TC is CU8 million related to the fair value of the supply contract with AC. The CU8 million represents a CU3 million component that is 'at market' because the pricing is comparable to pricing for current market transactions for the same or similar items (selling effort, customer relationships and so on) and a CU5 million component for pricing that is unfavourable to AC because it exceeds the price of current market transactions for similar items. TC has no other identifiable assets or liabilities related to the supply contract, and AC has not recognised any assets or liabilities related to the supply contract before the business combination.

IE56 In this example, AC calculates a loss of CU5 million (the lesser of the CU6 million stated settlement amount and the amount by which the contract is unfavourable to the acquirer) separately from the business combination. The CU3 million 'at-market' component of the contract is part of goodwill.

IE57 Whether AC had recognised previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognised as a gain or loss for the effective settlement of the relationship. Suppose that IFRSs had required AC to recognise a CU6 million liability for the supply contract before the business combination. In that situation, AC recognises a CU1 million settlement gain on the contract in profit or loss at the acquisition date (the CU5 million measured loss on the contract less the CU6 million loss previously recognised). In other words, AC has in effect settled a recognised liability of CU6 million for CU5 million, resulting in a gain of CU1 million.

Contingent payments to employees

Illustrating the consequences of applying paragraphs 51, 52, B50, B54 and B55 of IFRS 3.

IE58 TC appointed a candidate as its new CEO under a ten-year contract. The contract required TC to pay the candidate CU5 million if TC is acquired before the contract expires. AC acquires TC eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.

IE59 In this example, TC entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus, there is no evidence that the agreement was arranged primarily to provide benefits to AC or the combined entity. Therefore, the liability to pay CU5 million is included in the application of the acquisition method.

IE60 In other circumstances, TC might enter into a similar agreement with CEO at the suggestion of AC during the negotiations for the business combination. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AC or the combined entity rather than TC or its former owners. In that situation, AC accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

Replacement awards

Illustrating the consequences of applying paragraphs 51, 52 and B56–B62 of IFRS 3.

IE61 The following examples illustrate replacement awards that the acquirer was obliged to issue in the following circumstances:

		Acquiree awards Has the vesting period been completed before the business combination?	
		Completed	**Not completed**
Replacement awards Are employees required to provide additional service after the acquisition date?	**Not required**	Example 1	Example 4
	Required	Example 2	Example 3

IE62 The examples assume that all awards are classified as equity.

Example 1

Acquiree awards	*Vesting period **completed** before the business combination*
Replacement awards	*Additional employee services **are not** required after the acquisition date*

IE63 AC issues replacement awards of CU110 (market-based measure) at the acquisition date for TC awards of CU100 (market-based measure) at the acquisition date. No post-combination services are required for the replacement awards and TC's employees had rendered all of the required service for the acquiree awards as of the acquisition date.

IE64 The amount attributable to pre-combination service is the market-based measure of TC's awards (CU100) at the acquisition date; that amount is included in the consideration transferred in the business combination. The amount attributable to post-combination service is CU10, which is the difference between the total value of the replacement awards (CU110) and the portion attributable to pre-combination service (CU100). Because no post-combination service is required for the replacement awards, AC immediately recognises CU10 as remuneration cost in its post-combination financial statements.

Example 2

Acquiree awards	*Vesting period* ***completed*** *before the business combination*
Replacement awards	*Additional employee services* ***are*** *required after the acquisition date*

IE65 AC exchanges replacement awards that require one year of post-combination service for share-based payment awards of TC, for which employees had completed the vesting period before the business combination. The market-based measure of both awards is CU100 at the acquisition date. When originally granted, TC's awards had a vesting period of four years. As of the acquisition date, the TC employees holding unexercised awards had rendered a total of seven years of service since the grant date.

IE66 Even though TC employees had already rendered all of the service, AC attributes a portion of the replacement award to post-combination remuneration cost in accordance with paragraph B59 of IFRS 3, because the replacement awards require one year of post-combination service. The total vesting period is five years—the vesting period for the original acquiree award completed before the acquisition date (four years) plus the vesting period for the replacement award (one year).

IE67 The portion attributable to pre-combination services equals the market-based measure of the acquiree award (CU100) multiplied by the ratio of the pre-combination vesting period (four years) to the total vesting period (five years). Thus, CU80 (CU100 × 4/5 years) is attributed to the pre-combination vesting period and therefore included in the consideration transferred in the business combination. The remaining CU20 is attributed to the post-combination vesting period and is therefore recognised as remuneration cost in AC's post-combination financial statements in accordance with IFRS 2.

Example 3

Acquiree awards	*Vesting period* ***not completed*** *before the business combination*
Replacement awards	*Additional employee services* ***are*** *required after the acquisition date*

IE68 AC exchanges replacement awards that require one year of post-combination service for share-based payment awards of TC, for which employees had not yet rendered all of the service as of the acquisition date. The market-based measure of both awards is CU100 at the acquisition date. When originally granted, the awards of TC had a vesting period of four years. As of the acquisition date, the TC employees had rendered two years' service, and they would have been required to render two additional years of service after the acquisition date for their awards to vest. Accordingly, only a portion of the TC awards is attributable to pre-combination service.

IE69 The replacement awards require only one year of post-combination service. Because employees have already rendered two years of service, the total vesting period is three years. The portion attributable to pre-combination services equals the market-based measure of the acquiree award (CU100) multiplied by the ratio of the pre-combination vesting period (two years) to the **greater of** the total vesting period (three years) or the original vesting period of TC's award (four years). Thus, CU50 (CU100 × 2/4 years) is attributable to pre-combination service and therefore included in the consideration transferred for the acquiree. The remaining CU50 is attributable to post-combination service and therefore recognised as remuneration cost in AC's post-combination financial statements.

Example 4

Acquiree awards	*Vesting period **not completed** before the business combination*
Replacement awards	*Additional employee services **are not** required after the acquisition date*

IE70 Assume the same facts as in Example 3 above, except that AC exchanges replacement awards that require no post-combination service for share-based payment awards of TC for which employees had not yet rendered all of the service as of the acquisition date. The terms of the replaced TC awards did not eliminate any remaining vesting period upon a change in control. (If the TC awards had included a provision that eliminated any remaining vesting period upon a change in control, the guidance in Example 1 would apply.) The market-based measure of both awards is CU100. Because employees have already rendered two years of service and the replacement awards do not require any post-combination service, the total vesting period is two years.

IE71 The portion of the market-based measure of the replacement awards attributable to pre-combination services equals the market-based measure of the acquiree award (CU100) multiplied by the ratio of the pre-combination vesting period (two years) to the **greater of** the total vesting period (two years) or the original vesting period of TC's award (four years). Thus, CU50 (CU100 × 2/4 years) is attributable to pre-combination service and therefore included in the consideration transferred for the acquiree. The remaining CU50 is attributable to post-combination service. Because no post-combination service is required to vest in the replacement award, AC recognises the entire CU50 immediately as remuneration cost in the post-combination financial statements.

Disclosure requirements

Illustrating the consequences of applying the disclosure requirements in paragraphs 59–63 and B64–B67 of IFRS 3.

IE72 The following example illustrates some of the disclosure requirements of IFRS 3; it is not based on an actual transaction. The example assumes that AC is a listed entity and that TC is an unlisted entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Footnote X: Acquisitions

Paragraph reference		
B64(a–d)	On 30 June 20X0 AC acquired 15 per cent of the outstanding ordinary shares of TC. On 30 June 20X2 AC acquired 60 per cent of the outstanding ordinary shares of TC and obtained control of TC. TC is a provider of data networking products and services in Canada and Mexico. As a result of the acquisition, AC is expected to be the leading provider of data networking products and services in those markets. It also expects to reduce costs through economies of scale.	
B64(e)	The goodwill of CU2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AC and TC.	
B64(k)	None of the goodwill recognised is expected to be deductible for income tax purposes. The following table summarises the consideration paid for TC and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TC.	

At 30 June 20X2

	Consideration	**CU**
B64(f)(i)	Cash	5,000
B64(f)(iv)	Equity instruments (100,000 ordinary shares of AC)	4,000
B64(f)(iii); B64(g)(i)	Contingent consideration arrangement	1,000
B64(f)	**Total consideration transferred**	10,000
B64(p)(i)	**Fair value of AC's equity interest in TC held before the business combination**	2,000
		12,000
B64(m)	**Acquisition-related costs** (included in selling, general and administrative expenses in AC's statement of comprehensive income for the year ended 31 December 20X2)	1,250

B64(i)	**Recognised amounts of identifiable assets acquired and liabilities assumed**	
	Financial assets	3,500
	Inventory	1,000
	Property, plant and equipment	10,000
	Identifiable intangible assets	3,300
	Financial liabilities	(4,000)
	Contingent liability	(1,000)
	Total identifiable net assets	12,800
B64(o)(i)	**Non-controlling interest in TC**	(3,300)
	Goodwill	2,500
		12,000

B64(f)(iv) The fair value of the 100,000 ordinary shares issued as part of the consideration paid for TC (CU4,000) was determined on the basis of the closing market price of AC's ordinary shares on the acquisition date.

B64(f)(iii) B64(g) B67(b) The contingent consideration arrangement requires AC to pay the former owners of TC 5 per cent of the revenues of XC, an unconsolidated equity investment owned by TC, in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted).

The potential undiscounted amount of all future payments that AC could be required to make under the contingent consideration arrangement is between CU0 and CU2,500.

The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying the income approach. The fair value estimates are based on an assumed discount rate range of 20–25 per cent and assumed probability-adjusted revenues in XC of CU10,000–20,000.

As of 31 December 20X2, neither the amount recognised for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.

B64(h) The fair value of the financial assets acquired includes receivables under finance leases of data networking equipment with a fair value of CU2,375. The gross amount due under the contracts is CU3,100, of which CU450 is expected to be uncollectible.

B67(a)	The fair value of the acquired identifiable intangible assets of CU3,300 is provisional pending receipt of the final valuations for those assets.
B64(j) B67(c) IAS 37.84, 85	A contingent liability of CU1,000 has been recognised for expected warranty claims on products sold by TC during the last three years. We expect that the majority of this expenditure will be incurred in 20X3 and that all will be incurred by the end of 20X4. The potential undiscounted amount of all future payments that AC could be required to make under the warranty arrangements is estimated to be between CU500 and CU1,500. As of 31 December 20X2, there has been no change since 30 June 20X2 in the amount recognised for the liability or any change in the range of outcomes or assumptions used to develop the estimates.
B64(o)	The fair value of the non-controlling interest in TC, an unlisted company, was estimated by applying a market approach and an income approach. The fair value estimates are based on: (a) an assumed discount rate range of 20–25 per cent; (b) an assumed terminal value based on a range of terminal EBITDA multiples between 3 and 5 times (or, if appropriate, based on long term sustainable growth rates ranging from 3 to 6 per cent); (c) assumed financial multiples of companies deemed to be similar to TC; and (d) assumed adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in TC.
B64(p)(ii)	AC recognised a gain of CU500 as a result of measuring at fair value its 15 per cent equity interest in TC held before the business combination. The gain is included in other income in AC's statement of comprehensive income for the year ending 31 December 20X2.
B64(q)(i)	The revenue included in the consolidated statement of comprehensive income since 30 June 20X2 contributed by TC was CU4,090. TC also contributed profit of CU1,710 over the same period.
B64(q)(ii)	Had TC been consolidated from 1 January 20X2 the consolidated statement of comprehensive income would have included revenue of CU27,670 and profit of CU12,870.

Appendix
Amendments to guidance on other IFRSs

The following amendments to guidance on other IFRSs are necessary in order to ensure consistency with IFRS 3 (as revised in 2008) and the related amendments to other IFRSs. In the amended paragraphs, new text is underlined and deleted text is struck through.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

IGA1 In the Guidance on implementing IFRS 5, the paragraphs following Example 13 are amended as follows:

Guidance on the effect of IFRS 5 on IAS 36 (as revised in 2004)~~,~~ and IAS 38 (as revised in 2004) ~~and IFRS 3~~

IAS 36 (as revised in 2004)~~,~~ and IAS 38 (as revised in 2004) ~~and IFRS 3~~ include changes that arise from IFRS 5 as follows.

...

~~IFRS 3 *Business Combinations* was amended as described below.~~

~~Paragraph 36 was amended to read as follows:~~

~~36~~ ~~**The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in paragraph 37 at their fair values at that date, except for non current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5** ***Non-current Assets Held for Sale and Discontinued Operations*****, which shall be recognised at fair value less costs to sell. Any difference...**~~

~~Paragraph 75(b) and (d) was amended to read as follows:~~

~~(b)~~ ~~additional goodwill recognised during the period except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with IFRS 5;~~

~~(d)~~ ~~goodwill included in a disposal group classified as held for sale in accordance with IFRS 5 and goodwill derecognised during the period without having previously been included in a disposal group classified as held for sale;~~

IAS 12 *Income Taxes*

IGA2 Appendices A and B of IAS 12 are amended as described below.

In Appendix A, paragraph 12 of section A is amended as follows:

12 The carrying amount of an asset is increased to fair value in a business combination and no equivalent adjustment is made for tax purposes. *(Note that on initial recognition, the resulting deferred tax liability increases goodwill or decreases the amount of any bargain purchase gain recognised ~~excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination~~. See paragraph 66 of the Standard).*

In Appendix A, paragraph 9 of section B is amended as follows:

9 A liability is recognised at its fair value in a business combination, but none of the related expense is deducted in determining taxable profit until a later period. *(Note that the resulting deferred tax asset decreases goodwill or increases the amount of any bargain purchase gain recognised ~~excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination~~. See paragraph 66 of the Standard).*

In Appendix B, Example 3 is amended as follows:

Example 3 – Business combinations

...

	~~Cost of~~ Amounts recognised at acquisition	Tax base	Temporary differences
Property, plant and equipment	270	155	115
Accounts receivable	210	210	–
Inventory	174	124	50
Retirement benefit obligations	(30)	–	(30)
Accounts payable	(120)	(120)	–
~~Fair value of the i~~Identifiable assets acquired and liabilities assumed, excluding deferred tax	504	369	135

...

In Appendix B, Example 6 is added as follows:

Example 6 – Replacement awards in a business combination

On 1 January 20X1 Entity A acquired 100 per cent of Entity B. Entity A pays cash consideration of CU400 to the former owners of Entity B.

At the acquisition date Entity B had outstanding employee share options with a market-based measure of CU100. The share options were fully vested. As part of the business combination Entity B's outstanding share options are replaced by share options of Entity A (replacement awards) with a market-based measure of CU100 and an intrinsic value of CU80. The replacement awards are fully vested. In accordance with paragraphs B56–B62 of IFRS 3 *Business Combinations*, the replacement awards are part of the consideration transferred for Entity B. A tax deduction for the replacement awards will not arise until the options are exercised. The tax deduction will be based on the share options' intrinsic value at that date. Entity A's tax rate is 40 per cent. Entity A recognises a deferred tax asset of CU32 (CU80 intrinsic value × 40%) on the replacement awards at the acquisition date.

Entity A measures the identifiable net assets obtained in the business combination (excluding deferred tax assets and liabilities) at CU450. The tax base of the identifiable net assets obtained is CU300. Entity A recognises a deferred tax liability of CU60 ((CU450 – CU300) × 40%) on the identifiable net assets at the acquisition date.

Goodwill is calculated as follows:

	CU
Cash consideration	400
Market-based measure of replacement awards	100
Total consideration transferred	500
Identifiable net assets, excluding deferred tax assets and liabilities	(450)
Deferred tax asset	(32)
Deferred tax liability	60
Goodwill	**78**

Reductions in the carrying amount of goodwill are not deductible for tax purposes. In accordance with paragraph 15(a) of the Standard, Entity A recognises no deferred tax liability for the taxable temporary difference associated with the goodwill recognised in the business combination.

The accounting entry for the business combination is as follows:

	CU	CU
Dr Goodwill	78	
Dr Identifiable net assets	450	
Dr Deferred tax asset	32	
Cr Cash		400
Cr Equity (replacement awards)		100
Cr Deferred tax liability		60

On 31 December 20X1 the intrinsic value of the replacement awards is CU120. Entity A recognises a deferred tax asset of CU48 (CU120 × 40%). Entity A recognises deferred tax income of CU16 (CU48 − CU32) from the increase in the intrinsic value of the replacement awards. The accounting entry is as follows:

	CU	CU
Dr Deferred tax asset	16	
Cr Deferred tax income		16

If the replacement awards had not been tax deductible under current tax law, Entity A would not have recognised a deferred tax asset on the acquisition date. Entity A would have accounted for any subsequent events that result in a tax deduction related to the replacement award in the deferred tax income or expense of the period in which the subsequent event occurred.

Paragraphs B56–B62 of IFRS 3 provide guidance on determining which portion of a replacement award is part of the consideration transferred in a business combination and which portion is attributable to future service and thus a post-combination remuneration expense. Deferred tax assets and liabilities on replacement awards that are post-combination expenses are accounted for in accordance with the general principles as illustrated in Example 5.

IAS 36 *Impairment of Assets*

IGA3 In the Illustrative Examples of IAS 36, Example 7 is amended as described below.

Example 7 Impairment testing cash-generating units with goodwill and ~~minority~~ non-controlling interests

Example 7A Non-controlling interests measured initially as a proportionate share of the net identifiable assets

In this example, tax effects are ignored.

Background

IE62 ~~Entity X~~ Parent acquires an 80 per cent ownership interest in ~~Entity Y~~ Subsidiary for CU2,100 ~~1,600~~ on 1 January 20X3. At that date, Subsidiary's ~~Y's~~ net identifiable ~~net~~ assets have a fair value of CU1,500. ~~Y has no contingent liabilities. Therefore,~~ ~~X~~ Parent chooses to measure the non-controlling interests as the proportionate interest of Subsidiary's net identifiable assets of CU300 (20% of CU1,500). Goodwill of CU900 is the difference between the aggregate of the consideration transferred and the amount of the non-controlling interests (CU2,100 + CU300) and the net identifiable assets (CU1,500). ~~recognises in its consolidated financial statements:~~

~~(a) goodwill of CU400, being the difference between the cost of the business combination of CU1,600 and X's 80 per cent interest in Y's identifiable net assets;~~

~~(b) Y's identifiable net assets at their fair value of CU1,500; and~~

~~(c) a minority interest of CU300, being the 20 per cent interest in Y's identifiable net assets held by parties outside X.~~

IE63 The assets of Subsidiary ~~Y~~ together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Therefore Subsidiary ~~Y~~ is a cash-generating unit. Because other cash-generating units of Parent are expected to benefit from the synergies of the combination, the goodwill of CU500 related to those synergies has been allocated to other cash-generating units within Parent. Because the~~is~~ cash-generating unit comprising Subsidiary includes goodwill within its carrying amount, it must be tested for impairment annually, or more frequently if there is an indication that it may be impaired (see paragraph 90 of IAS 36).

IE64 At the end of 20X3, Parent ~~X~~ determines that the recoverable amount of cash-generating unit Subsidiary ~~Y~~ is CU1,000. The carrying amount of the net assets of Subsidiary, excluding goodwill, is CU1,350. ~~X uses straight-line depreciation over a 10 year life for Y's identifiable assets and anticipates no residual value.~~

Testing Subsidiary (cash-generating unit) ~~Y~~ for impairment

IE65 ~~A portion of~~ Goodwill attributable to non-controlling interests is included in Subsidiary's ~~Y's~~ recoverable amount of CU1,000 but has not been recognised in Parent's consolidated financial statements ~~is attributable to the unrecognised minority interest in goodwill~~. Therefore, in accordance with paragraph ~~92~~ C4 of Appendix C of IAS 36, the carrying amount of Subsidiary ~~Y must be notionally adjusted~~ is grossed up to include goodwill attributable to the ~~minority~~ non-controlling interests, before being compared with the recoverable amount of CU1,000. Goodwill attributable to Parent's 80 per cent interest in Subsidiary at the acquisition date is CU400 after allocating CU500 to other cash-generating units within Parent. Therefore, goodwill attributable to the 20 per cent non-controlling interests in Subsidiary at the acquisition date is CU100.

Schedule 1. Testing Subsidiary ~~Y~~ for impairment at the end of 20X3

End of 20X3	*Goodwill of Subsidiary*	*Net ~~I~~identifiable ~~net~~ assets*	*Total*
	CU	CU	CU
~~Gross carrying amount~~	~~400~~	~~1,500~~	~~1,900~~
~~Accumulated depreciation~~	–	~~(150)~~	~~(150)~~
Carrying amount	400	1,350	1,750
Unrecognised ~~minority~~ non-controlling interests	100~~(a)~~	–	100
~~Notionally a~~ Adjusted carrying amount	500	1,350	1,850
Recoverable amount			1,000
Impairment loss			850

~~(a) Goodwill attributable to X's 80% interest in Y at the acquisition date is CU400. Therefore, goodwill notionally attributable to the 20% minority interest in Y at the acquisition date is CU100.~~

Allocating the impairment loss

IE66 In accordance with paragraph 104 of IAS 36, the impairment loss of CU850 is allocated to the assets in the unit by first reducing the carrying amount of goodwill ~~to zero~~.

IE67 Therefore, CU500 of the CU850 impairment loss for the unit is allocated to the goodwill. In accordance with paragraph C6 of Appendix C of IAS 36, if the partially-owned subsidiary is itself a cash-generating unit, the goodwill impairment loss is allocated to the controlling and non-controlling interests on the same basis as that on which profit or loss is allocated. In this example, profit or loss is allocated on the basis of relative ownership interests. ~~However, b~~Because the goodwill is recognised only to the extent of ~~X~~ Parent's 80 per cent ownership interest in Subsidiary ~~Y~~, ~~X~~ Parent recognises only 80 per cent of that goodwill impairment loss (ie CU400).

IE68 The remaining impairment loss of CU350 is recognised by reducing the carrying amounts of ~~Y~~ Subsidiary's identifiable assets (see Schedule 2).

Schedule 2. Allocation of the impairment loss for Subsidiary ~~Y~~ at the end of 20X3

End of 20X3	*Goodwill*	*Net ~~I~~identifiable ~~net~~ assets*	*Total*
	CU	CU	CU
~~Gross carrying amount~~	~~400~~	~~1,500~~	~~1,900~~
~~Accumulated depreciation~~	–	~~(150)~~	~~(150)~~
Carrying amount	400	1,350	1,750
Impairment loss	(400)	(350)	(750)
Carrying amount after impairment loss	–	1,000	1,000

In the Illustrative Examples, Examples 7B and 7C are added as follows:

Example 7B Non-controlling interests measured initially at fair value and the related subsidiary is a stand-alone cash-generating unit

In this example, tax effects are ignored.

Background

IE68A Parent acquires an 80 per cent ownership interest in Subsidiary for CU2,100 on 1 January 20X3. At that date, Subsidiary's net identifiable assets have a fair value of CU1,500. Parent chooses to measure the non-controlling interests at fair value, which is CU350. Goodwill of CU950 is the difference between the aggregate of the consideration transferred and the amount of the non-controlling interests (CU2,100 + CU350) and the net identifiable assets (CU1,500).

IE68B The assets of Subsidiary together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Therefore, Subsidiary is a cash-generating unit. Because other cash-generating units of Parent are expected to benefit from the synergies of the combination, the goodwill of CU500 related to those synergies has been allocated to other cash-generating units within Parent. Because Subsidiary includes goodwill within its carrying amount, it must be tested for impairment annually, or more frequently if there is an indication that it might be impaired (see paragraph 90 of IAS 36).

Testing Subsidiary for impairment

IE68C At the end of 20X3, Parent determines that the recoverable amount of cash-generating unit Subsidiary is CU1,650. The carrying amount of the net assets of Subsidiary, excluding goodwill, is CU1,350.

Schedule 1. Testing Subsidiary for impairment at the end of 20X3

End of 20X3	*Goodwill*	*Net identifiable assets*	*Total*
	CU	CU	CU
Carrying amount	450	1,350	1,800
Recoverable amount			1,650
Impairment loss			150

Allocating the impairment loss

IE68D In accordance with paragraph 104 of IAS 36, the impairment loss of CU150 is allocated to the assets in the unit by first reducing the carrying amount of goodwill.

IE68E Therefore, the full amount of impairment loss of CU150 for the unit is allocated to the goodwill. In accordance with paragraph C6 of Appendix C of IAS 36, if the partially-owned subsidiary is itself a cash-generating unit, the goodwill impairment loss is allocated to the controlling and non-controlling interests on the same basis as that on which profit or loss is allocated.

Example 7C Non-controlling interests measured initially at fair value and the related subsidiary is part of a larger cash-generating unit

In this example, tax effects are ignored.

Background

IE68F Suppose that, for the business combination described in paragraph IE68A of Example 7B, the assets of Subsidiary will generate cash inflows together with other assets or groups of assets of Parent. Therefore, rather than Subsidiary being the cash-generating unit for the purposes of impairment testing, Subsidiary becomes part of a larger cash-generating unit, Z. Other cash-generating units of Parent are also expected to benefit from the synergies of the combination. Therefore, goodwill related to those synergies, in the amount of CU500, has been allocated to those other cash-generating units. Z's goodwill related to previous business combinations is CU800.

IE68G Because Z includes goodwill within its carrying amount, both from Subsidiary and from previous business combinations, it must be tested for impairment annually, or more frequently if there is an indication that it might be impaired (see paragraph 90 of IAS 36).

Testing Subsidiary for impairment

IE68H At the end of 20X3, Parent determines that the recoverable amount of cash-generating unit Z is CU3,300. The carrying amount of the net assets of Z, excluding goodwill, is CU2,250.

Schedule 3. Testing Z for impairment at the end of 20X3

End of 20X3	*Goodwill*	*Net identifiable assets*	*Total*
	CU	CU	CU
Carrying amount	1,250	2,250	3,500
Recoverable amount			3,300
Impairment loss			200

Allocating the impairment loss

IE68I In accordance with paragraph 104 of IAS 36, the impairment loss of CU200 is allocated to the assets in the unit by first reducing the carrying amount of goodwill. Therefore, the full amount of impairment loss of CU200 for cash-generating unit Z is allocated to the goodwill. In accordance with paragraph C7 of Appendix C of IAS 36, if the partially-owned subsidiary forms part of a larger cash-generating unit, the goodwill impairment loss would be allocated first to the parts of the cash-generating unit, Z, and then to the controlling and non-controlling interests of the partially owned Subsidiary.

IE68J Parent allocates the impairment loss to the parts of the cash-generating unit on the basis of the relative carrying values of the goodwill of the parts before the impairment. In this example Subsidiary is allocated 36 per cent of the impairment (450/1,250). The impairment loss is then allocated to the controlling and non-controlling interests on the same basis as that on which profit or loss is allocated.

Comparison of IFRS 3 (as revised in 2008) and SFAS 141(R)

1 IFRS 3 *Business Combinations* (as revised in 2008) and FASB Statement No.141 (revised 2007) *Business Combinations* (SFAS 141(R)) are the result of the IASB's and the FASB's projects to improve the accounting for and reporting of business combinations. The first phase of those projects led to IFRS 3 (issued in 2004) and FASB Statement No. 141 (issued in 2001). In 2002, the IASB and the FASB agreed to reconsider jointly their guidance for applying the purchase method (now called the acquisition method) of accounting for business combinations. The objective of the joint effort was to develop a common and comprehensive standard for the accounting for business combinations that could be used for both domestic and international financial reporting. Although the boards reached the same conclusions on most of the issues addressed in the project, they reached different conclusions on a few matters.

2 On those matters on which the boards reached different conclusions, each board includes its own requirements in its version of the standard. The following table identifies and compares those paragraphs in which the IASB and the FASB have different requirements. The table does not identify non-substantive differences. For example, the table does not identify differences in terminology that do not change the meaning of the guidance, such as the IASB using the term *profit or loss* and the FASB using the term *earnings*.

3 Most of the differences identified in the table arise because of the boards' decision to provide guidance for accounting for business combinations that is consistent with other IFRSs or FASB standards. Many of those differences are being considered in current projects or are candidates for future convergence projects, which is why the boards allowed those differences to continue at this time.

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Scope exception for not-for-profit organisations	IFRSs generally do not have scope limitations for not-for-profit activities in the private or public sector. Therefore, this scope exception is not necessary for the revised IFRS 3.	SFAS 141(R) does not apply to combinations of not-for-profit organisations or the acquisition of a for-profit business by a not-for-profit organisation. The FASB is developing guidance for the accounting for mergers and acquisitions by not-for-profit organisations in a separate project. [paragraph 2(d)]
Identifying the acquirer	The guidance on control in IAS 27 *Consolidated and Separate Financial Statements* is used to identify the acquirer. The revised IFRS 3 does not have guidance for primary beneficiaries because it does not have consolidation guidance equivalent to FASB Interpretation No. 46 (revised December 2003) *Consolidation of Variable Interest Entities* (FASB Interpretation 46(R)). [Appendix A and paragraph 7]	The guidance on *controlling financial interest* in ARB No. 51 *Consolidated Financial Statements* (ARB 51), as amended, is used to identify the acquirer, unless the acquirer is the primary beneficiary of a variable interest entity. The primary beneficiary of a variable interest entity is always the acquirer and the determination of which party is the primary beneficiary is made in accordance with FASB Interpretation 46(R), not based on the guidance in ARB 51 or paragraphs A11–A15 of SFAS 141(R). [paragraphs 3(b) and 9]

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Definition of control	*Control* is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. [Appendix A]	*Control* has the meaning of *controlling financial interest* in paragraph 2 of ARB 51, as amended, and interpreted by FASB Interpretation 46(R). [paragraph 3(g)]
Definition of fair value	*Fair value* is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The IASB has a separate project in which it is considering the definition of fair value and related measurement guidance. [Appendix A]	*Fair value* is defined in paragraph 5 of FASB Statement No. 157 *Fair Value Measurements* as 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. [paragraph 3(i)]

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Operating leases	The revised IFRS 3 requires the acquirer to take into account the terms of a lease in measuring the acquisition-date fair value of an asset that is subject to an operating lease in which the acquiree is the lessor. This is consistent with the guidance in IAS 40 *Investment Property*. Accordingly, the revised IFRS 3 does not require the acquirer of an operating lease in which the acquiree is the lessor to recognise a separate asset or liability if the terms of an operating lease are favourable or unfavourable compared with market terms as is required for leases in which the acquiree is the lessee. [paragraphs B29 and B42]	Regardless of whether the acquiree is the lessee or the lessor, SFAS 141(R) requires the acquirer to recognise an intangible asset if the terms of an operating lease are favourable relative to market terms or a liability if the terms are unfavourable relative to market terms. Accordingly, an acquirer measures the acquisition-date fair value of an asset that is subject to an operating lease in which the acquiree is the lessor separately from the lease contract. [paragraphs A17 and A58]
Non-controlling interest in an acquiree	**Initial recognition** The revised IFRS 3 permits an acquirer to measure the non-controlling interest in an acquiree either at fair value or as its proportionate share of the acquiree's identifiable net assets. [paragraph 19]	**Initial recognition** SFAS 141(R) requires the non-controlling interest in an acquiree to be measured at fair value. [paragraph 20]

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Non-controlling interest in an acquiree	**Disclosures** Because an acquirer is permitted to choose between two measurement bases for the non-controlling interest in an acquiree, the revised IFRS 3 requires an acquirer to disclose the measurement basis used. If the non-controlling interest is measured at fair value, the acquirer must disclose the valuation techniques and key model inputs used. [paragraph B64(o)]	**Disclosures** SFAS 141(R) requires an acquirer to disclose the valuation technique(s) and significant inputs used to measure fair value. [paragraph 68(p)]

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Assets and liabilities arising from contingencies	**Initial recognition** The revised IFRS 3 requires the acquirer to recognise a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. [paragraphs 22 and 23]	**Initial recognition** SFAS 141(R) requires the acquirer to recognise as of the acquisition date the assets acquired and liabilities assumed that arise from *contractual contingencies*, measured at their acquisition-date fair values. For all other contingencies (referred to as *non-contractual contingencies*), the acquirer recognises an asset or liability as of the acquisition date if it is **more likely than not** that the contingency gives rise to an asset or a liability as defined in FASB Concepts Statement No. 6 *Elements of Financial Statements*. Non-contractual contingencies that do not meet the recognition threshold as of the acquisition date are accounted for in accordance with other GAAP, including FASB Statement No. 5 *Accounting for Contingencies* (SFAS 5) as appropriate. [paragraphs 23–25]

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Assets and liabilities arising from contingencies	**Subsequent measurement** The revised IFRS 3 carries forward the existing requirements that a contingent liability recognised in a business combination must be measured subsequently at the higher of the amount that would be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*. [paragraph 56]	**Subsequent measurement** SFAS 141(R) requires an acquirer to continue to report an asset or liability arising from a contractual or non-contractual contingency that is recognised as of the acquisition date that would be in the scope of SFAS 5 if not acquired or assumed in a business combination at its acquisition-date fair value until the acquirer obtains new information about the possible outcome of the contingency. The acquirer evaluates that new information and measures the asset or liability as follows: (a) a liability is measured at the *higher* of: (i) its acquisition-date fair value; or (ii) the amount that would be recognised if applying SFAS 5. (b) an asset is measured at the *lower* of: (i) its acquisition-date fair value; or (ii) the best estimate of its future settlement amount. [paragraphs 62 and 63]

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Assets and liabilities arising from contingencies	**Disclosures** SFAS 141(R)'s disclosures related to assets and liabilities arising from contingencies are slightly different from those required by the revised IFRS 3 because the IASB's disclosures are based on the requirements in IAS 37. [the revised IFRS 3, paragraphs B64(j) and B67(c); SFAS 141(R), paragraphs 68(j) and 72(c)]	
	Application guidance SFAS 141(R) provides application guidance for applying the more-likely-than-not criterion for recognising non-contractual contingencies. The revised IFRS 3 does not have equivalent guidance. [SFAS 141(R), paragraphs A62–A65]	
Assets and liabilities for which the acquirer applies other IFRSs or US GAAP rather than the recognition and measurement principles	The revised IFRS 3 and SFAS 141(R) provide exceptions to the recognition and measurement principles for particular assets and liabilities that the acquirer accounts for in accordance with other IFRSs or US GAAP. For example, income taxes and employee benefit arrangements are accounted for in accordance with existing IFRSs or US GAAP. Differences in the existing guidance might result in differences in the amounts recognised in a business combination. For example, differences between the recognition and measurement guidance in IAS 12 *Income Taxes* and FASB Statement No. 109 *Accounting for Income Taxes* (SFAS 109) might result in differences in the amounts recognised in a business combination related to income taxes. [the revised IFRS 3, paragraphs 24–26; SFAS 141(R), paragraphs 26–28]	

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Replacement share-based payment awards	The revised IFRS 3 requires an acquirer to account for share-based payment awards that it exchanges for awards held by employees of the acquiree in accordance with IFRS 2 *Share-based Payment* and SFAS 141(R) requires the acquirer to account for those awards in accordance with FASB Statement No. 123 (revised 2004) *Share-Based Payment* (SFAS 123(R)). Differences between IFRS 2 and SFAS 123(R) might cause differences in the accounting for share-based payment awards entered into as part of the business combination. In addition, the implementation guidance differs because of the different requirements in IFRS 2 and SFAS 123(R). [the revised IFRS 3, paragraphs 30 and B56–B62; SFAS 141(R), paragraphs 32, 43–46 and A91–A106]	

<table>
<tr><th>Guidance</th><th>IFRS 3 (as revised in 2008)</th><th>SFAS 141(R)</th></tr>
<tr><td rowspan="2">Contingent consideration</td><td colspan="2">Initial classification

The revised IFRS 3 and SFAS 141(R) require an acquirer to classify contingent consideration as an asset, a liability or equity on the basis of other IFRSs or US GAAP, respectively. Differences between the related IFRSs and US GAAP might cause differences in the initial classification and, therefore, might cause differences in the subsequent accounting. [the revised IFRS 3, paragraph 40; SFAS 141(R), paragraph 42]</td></tr>
<tr><td>Subsequent measurement

Contingent consideration classified as an asset or liability that:

(a) is a financial instrument and is within the scope of IAS 39 Financial Instruments: Recognition and Measurement is measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with that IFRS.

(b) is not within the scope of IAS 39 is accounted for in accordance with IAS 37 or other IFRSs as appropriate. [paragraph 58]</td><td>Subsequent measurement

Contingent consideration classified as an asset or liability is measured subsequently at fair value. The changes in fair value are recognised in earnings unless the contingent consideration is a hedging instrument for which FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities requires the subsequent changes to be recognised in other comprehensive income. [paragraph 65]</td></tr>
</table>

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Subsequent measurement and accounting for assets, liabilities or equity instruments	In general, after a business combination an acquirer measures and accounts for assets acquired, liabilities assumed or incurred and equity instruments issued in accordance with other applicable IFRSs or US GAAP, depending on their nature. Differences in the other applicable guidance might cause differences in the subsequent measurement and accounting for those assets, liabilities and equity instruments. [the revised IFRS 3, paragraphs 54 and B63; SFAS 141(R), paragraphs 60 and 66]	

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Goodwill by reportable segment	The disclosure of goodwill by reportable segment is not required by the revised IFRS 3. Paragraph 134 of IAS 36 *Impairment of Assets* requires an entity to disclose the aggregate carrying amount of goodwill allocated to each cash-generating unit (group of units) for which the carrying amount of goodwill allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill. This information is not required to be disclosed for each material business combination that occurs during the period or in the aggregate for individually immaterial business combinations that are material collectively and occur during the period.	SFAS 141(R) requires the acquirer to disclose **for each business combination that occurs during the period or in the aggregate for individually immaterial business combinations that are material collectively and that occur during the period,** the amount of goodwill by reportable segment, if the combined entity is required to disclose segment information in accordance with FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131) unless such disclosure is impracticable. Like IAS 36, paragraph 45 of FASB Statement No. 142 *Goodwill and Other Intangible Assets* (SFAS 142) requires disclosure of this information in the aggregate by each reportable segment, not for each material business combination that occurs during the period or in the aggregate for individually immaterial business combinations that are material collectively and occur during the period. [paragraph 68(l)]

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Pro forma disclosures	The disclosures required by this paragraph apply to all acquirers. The revised IFRS 3 does not require the disclosure of *revenue and profit or loss* of the combined entity for the comparable prior period even if comparative financial statements are presented. [paragraph B64(q)]	The disclosures required by this paragraph apply only to acquirers that are *public business enterprises*, as described in paragraph 9 of SFAS 131. If comparative financial statements are presented, SFAS 141(R) requires disclosure of *revenue and earnings* of the combined entity for the comparable prior reporting period as though the acquisition date for all business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period (*supplemental pro forma* information). [paragraph 68(r)]

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Goodwill reconciliation	The revised IFRS 3 requires an acquirer to provide a goodwill reconciliation and provides a detailed list of items that should be shown separately. [paragraph B67(d)]	SFAS 141(R) requires an acquirer to provide a goodwill reconciliation in accordance with the requirements of SFAS 142. SFAS 141(R) amends the requirement in SFAS 142 to align the level of detail in the reconciliation with that required by the IASB. As a result, there is no substantive difference between the FASB's and the IASB's requirements; however, the guidance is contained in different standards. [paragraph 72(d)]
Disclosures of the financial effects of adjustments to the amounts recognised in a business combination	The revised IFRS 3 requires the acquirer to disclose the amount and an explanation of any gain or loss recognised in the current period that (a) relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period and (b) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements. [paragraph B67(e)]	SFAS 141(R) does not require this disclosure.

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Effective date	The revised IFRS 3 is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Early application is permitted. [paragraph 64]	SFAS 141(R) is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 15 December 2008. Early application is prohibited. [paragraph 74]
Income taxes	The revised IFRS 3 and SFAS 141(R) require the subsequent recognition of acquired deferred tax benefits in accordance with IAS 12 or SFAS 109, respectively. Differences between IAS 12 and SFAS 109 might cause differences in the subsequent recognition. Also, in accordance with US GAAP, the acquirer is required to recognise changes in the acquired income tax positions in accordance with FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes*, as amended by SFAS 141(R). [the revised IFRS 3, paragraph 67; SFAS 141(R), paragraph 77]	

The revised IFRS 3 and SFAS 141(R) have also been structured to be consistent with the style of other IFRSs and FASB standards. As a result, the paragraph numbers of the revised standards are not the same, even though the wording in the paragraphs is consistent (except for the differences identified above). This table shows how the paragraph numbers of the revised standards correspond.

IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph	IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph	IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
1	1	28	30	55	61
2	2	29	31	56	62, 63
3	4, 5	30	32	57	64
4	6	31	33	58	65
5	7	32	34	59	67
6	8	33	35	60	68
7	9	34	36	61	71
8	10	35	37	62	72
9	11	36	38	63	73
10	12	37	39	64	74
11	13	38	40	65	75
12	14	39	41	66	76
13	15	40	42	67	77
14	16	41	47	68	None
15	17	42	48	Appendix A	3
16	18	43	49	B1–B4	D8–D14
17	19	44	50	B5	A2
18	20	45	51	B6	A3
19	20	46	52	B7	A4
20	21	47	53	B8	A5
21	22	48	54	B9	A6
22	23	49	55	B10	A7
23	24, 25	50	56	B11	A8
24	26	51	57	B12	A9
25	27	52	58	B13	A10
26	28	53	59	B14	A11
27	29	54	60	B15	A12

IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph	IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph	IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
B16	A13	B47	A67	IE10	A125
B17	A14	B48	A68	IE11	A126
B18	A15	B49	A69	IE12	A126
B19	A108	B50	A77	IE13	A127
B20	A109	B51	A78	IE14	A128
B21	A110	B52	A79, A80	IE15	A129
B22	A111	B53	A81	IE16	A29
B23	A112	B54	A86	IE17	A30
B24	A113	B55	A87	IE18	A31
B25	A114	B56	43, 44	IE19	A32
B26	A115	B57	45, A92	IE20	A33
B27	A116	B58	A93	IE21	A34
B28	A16	B59	46, A94	IE22	A35
B29	A17	B60	A95	IE23	A36
B30	A18	B61	A96	IE24	A37
B31	A19	B62	A97–A99	IE25	A38
B32	A20	B63	66	IE26	A39
B33	A21	B64	68	IE27	A40
B34	A22	B65	69	IE28	A41
B35	A23	B66	70	IE29	A41
B36	A24	B67	72	IE30	A43
B37	A25	B68, B69	A130–A134	IE31	A42
B38	A26	IE1	A117	IE32	A44
B39	A27	IE2	A118	IE33	A45
B40	A28	IE3	A119	IE34	A46
B41	A57	IE4	A120	IE35	A47
B42	A58	IE5	A120	IE36	A48
B43	A59	IE6	A121	IE37	A49
B44	A60	IE7	A122	IE38	A50
B45	A61	IE8	A123	IE39	A51
B46	A66	IE9	A124	IE40	A52

IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
IE41	A53
IE42	A54
IE43	A55
IE44	A56
IE45	A70
IE46	A71
IE47	A71
IE48	A72
IE49	None
IE50	A73
IE51	A74

IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
IE52	A75
IE53	A76
IE54	A82
IE55	A83
IE56	A84
IE57	A85
IE58	A88
IE59	A89
IE60	A90
IE61	A100
IE62	A100

IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
IE63	A101
IE64	A102
IE65	A103
IE66	A103
IE67	A103
IE68	A104
IE69	A105
IE70	A106
IE71	A106
IE72	A107

Table of Concordance

This table shows how the contents of the superseded version of IFRS 3 and the revised version of IFRS 3 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded IFRS 3 paragraph	Revised IFRS 3 paragraph
1	1
2	2
3	2
4	2, 3
5	B5, B6
6	B6
7	B6
8	43
9	None
10	B1
11	B2
12	B3
13	B4
14	4
15	None
16	5
17	6, 7
18	None
19	7
20	B13–B16
21	B15
22	B18
23	B17
24	37, 38
25	8, 41, 42
26	None
27	None
28	11
29–31	53
32–35	39, 40, 58
36	10, 18, 31
37	10
38	IAS 27.26
39	8, 9
40	19
41	11
42	None
43	11
44	13
45, 46	B31–B34
47–50	22, 23, 56, B64(j), B67(c)
51	32
52	Appendix A
53	35
54, 55	B63(a)
56, 57	34–36
58–60	41, 42
61–64	45–50
65	IAS 12.68
66	59
67	60, B64
68	B65
69	B67(a)
70	B64(q)
71	B66
72	61
73	62, B67
74–76	B67(d)
77	63
78–85	64–67, B68, B69
86, 87	68
Appendix A	Appendix A, B7, B12
B1–B3	B19
B4–B6	B20
B7–B9	B21, B22
B10, B11	B23, B24
B12–B15	B25–B27
B16	None
B17	None
None	12, 14–17, 20, 21, 24–30, 33, 44, 51, 52, 54, 55, 57
None	B8–B11, B28–B30, B35–B62

The main revisions made in 2008 were:

- The scope was broadened to cover business combinations involving only mutual entities and business combinations achieved by contract alone.
- The definitions of a *business* and a *business combination* were amended and additional guidance was added for identifying when a group of assets constitutes a business.
- For each business combination, the acquirer must measure any non-controlling interest in the acquiree either at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Previously, only the latter was permitted.
- The requirements for how the acquirer makes any classifications, designations or assessments for the identifiable assets acquired and liabilities assumed in a business combination were clarified.
- The period during which changes to deferred tax benefits acquired in a business combination can be adjusted against goodwill has been limited to the measurement period (through a consequential amendment to IAS 12 *Income Taxes*).
- An acquirer is no longer permitted to recognise contingencies acquired in a business combination that do not meet the definition of a liability.
- Costs the acquirer incurs in connection with the business combination must be accounted for separately from the business combination, which usually means that they are recognised as expenses (rather than included in goodwill).
- Consideration transferred by the acquirer, including contingent consideration, must be measured and recognised at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as liabilities are recognised in accordance with IAS 39, IAS 37 or other IFRSs, as appropriate (rather than by adjusting goodwill). The disclosures required to be made in relation to contingent consideration were enhanced.
- Application guidance was added in relation to when the acquirer is obliged to replace the acquiree's share-based payment awards; measuring indemnification assets; rights sold previously that are reacquired in a business combination; operating leases; and valuation allowances related to financial assets such as receivables and loans.

- For business combinations achieved in stages, having the acquisition date as the single measurement date was extended to include the measurement of goodwill. An acquirer must remeasure any equity interest it holds in the acquiree immediately before achieving control at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.