AASB 3 *Business Combinations vs. IFRS for SMEs* Section 19 *Business Combinations and Goodwill*

1. Executive Summary

Main differences in recognition, measurement or presentation requirements

The *IFRS for SMEs* is based on the July 2004 (amended as at December 2007) version of AASB 3. However the following compares the *IFRS for SMEs* with the latest AASB 3 (operative from 1 July 2009) to identify recognition and measurement differences.

Measurement of non-controlling interests

The *IFRS for SMEs* does not allow the acquirer to measure any non-controlling interest in the acquiree at fair value, while AASB 3 permits measurement at fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Recognition of contingencies

Under AASB 3 an acquirer is no longer permitted to recognise contingencies acquired in a business combination that do not meet the definition of a liability.

Recognition of expenses

Under AASB 3 direct costs are generally expensed.

Measurement of consideration

Under AASB 3 consideration must be accounted for at fair value, with subsequent changes accounted for using the relevant standard.

Measurement of equity interests

Under AASB 3 an acquirer must remeasure any equity interest it holds in the acquiree immediately before achieving control at fair value and recognise the resulting gain or loss in the income statement.

Disclosure proposals

It is proposed to:

- exclude paragraphs 59, 60, 61, 62, 63, B64(d), B64(e), B64(g), B64(h), B64(j) second sentence, B64(k), B64(l), B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q), B65, B66, B67(a), B67(b), B67(c) and B67(e) from the Reduced Disclosure Regime(RDR); and
- add RDRB67(d) to the RDR to provide relief from prior period disclosure required by paragraph B67(d).

2. Analysis of disclosure requirements

Text in AASB 3 *Business Combinations*	Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill*	Comment
Disclosure **59 The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:** **(a) during the current reporting period; or** **(b) after the end of the reporting period but before the financial statements are authorised for issue.** 60 To meet the objective in paragraph 59, the acquirer shall disclose the information specified in paragraphs B64-B66. B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period: (a) the name and a description of the acquiree. (b) the acquisition date. (c) the percentage of voting equity interests acquired. (d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.	**Disclosure** **For business combination(s) effected during the reporting period** 19.25 For each business combination that was effected during the period, the acquirer shall disclose the following: (a) the names and descriptions of the combining entities or businesses. (b) the acquisition date. (c) the percentage of voting equity instruments acquired. (d) the cost of the combination and a description of the components of that cost (such as cash, equity instruments and debt instruments). (e) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill (f) the amount of any excess recognised in profit or loss in accordance with paragraph 19.24, and the line item in the statement of comprehensive income (and in the income statement, if presented) in which the excess is	Paragraph 59 has no direct equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR. In addition, paragraph 60 and the reference to paragraph 59 in paragraph B64 should be excluded from the RDR. Paragraphs B64(a), B64(b), B64(c), B64(f) B64(i) and B64(n)(i) and paragraphs 19.25(a), 19.25(b), 19.25(c), 19.25(d), 19.25(e) and 19.25(f) of the *IFRS for SMEs* correspond. Paragraphs B64(a), B64(b), B64(c), B64(f), B64(i) and B64(n)(i) should be retained in the RDR. Paragraph B64(j), first sentence, and paragraph 19.20(b) of the *IFRS for SMEs* correspond. Paragraph B64(j), first sentence, should be retained in the RDR. Paragraphs B64(d), B64(e), B64(g), B64(h), B64(j) second sentence, B64(k), B64(l), B64(m), B64(n)(ii), B64(o)(ii), B64(p) and B64(q) have no equivalents in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be

[1] Para. 26.19 of *IFRS for SMEs* states that "For each business combination that was effected during the period, the acquirer shall disclose the following: … (e) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill…"

Text in AASB 3 *Business Combinations*	**Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill***	**Comment**
(e) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors. (f)[1] the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as: (i) cash; (ii) other tangible or intangible assets, including a business or subsidiary of the acquirer; (iii) liabilities incurred, for example, a liability for contingent consideration; and (iv) equity interests of the acquirer, including the number of instruments or interests issued or is usable and the method of determining the fair value of those instruments or interests. (g) for contingent consideration arrangements and indemnification assets: (i) the amount recognised as of the acquisition date; (ii) a description of the arrangement and the basis for determining the amount of the payment; and	recognised. 19.20 Paragraph 19.14 specifies that the acquirer recognises separately a provision for a contingent liability of the acquiree only if its fair value can be measured reliably. If its fair value cannot be measured reliably: (a) there is a resulting effect on the amount recognised as goodwill or accounted for in accordance with paragraph 19.24; and (b) the acquirer shall disclose the information about that contingent liability as required by Section 21.	excluded from the RDR. Paragraph B64(o)(i) has no equivalent in the *IFRS for SMEs*, however, it relates to an accounting policy choice that is available under AASB 3 and, based on paragraph IN6(d) of this Appendix, should be retained in the RDR.

Text in AASB 3 *Business Combinations*	**Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill***	**Comment**
(iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact. (h) for acquired receivables: (i) the fair value of the receivables; (ii) the gross contractual amounts receivable; and (iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected. The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables. (i) the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed. (j) for each contingent liability recognised in accordance with paragraph 23, the information required in paragraph 85 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose: (i) the information required by paragraph 86		

Text in AASB 3 *Business Combinations*	Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill*	Comment
of AASB 137; and (ii) the reasons why the liability cannot be measured reliably. (k) the total amount of goodwill that is expected to be deductible for tax purposes. (l) for transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination in accordance with paragraph 51: (i) a description of each transaction; (ii) how the acquirer accounted for each transaction; (iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and (iv) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount. (m) the disclosure of separately recognised transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of comprehensive income in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed.		

Text in AASB 3 *Business Combinations*	**Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill***	**Comment**
(n) in a bargain purchase (see paragraphs 34-36): (i) the amount of any gain recognised in accordance with paragraph 34 and the line item in the statement of comprehensive income in which the gain is recognised; and (ii) a description of the reasons why the transaction resulted in a gain. (o) for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date: (i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and (ii) for each non-controlling interest in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value. (p) in a business combination achieved in stages: (i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and (ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination		

Text in AASB 3 *Business Combinations*	Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill*	Comment
(see paragraph 42) and the line item in the statement of comprehensive income in which that gain or loss is recognised. (q) the following information: (i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and (ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term 'impracticable' with the same meaning as in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.		
B65 For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph B64(e)-(q).		Paragraph B65 provides guidance about requirements retained in the RDR but does not add disclosure requirements and, consistent with paragraph IN7 of this Appendix, should be retained in the RDR.
B66 If the acquisition date of a business combination is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer shall		Paragraph B66 relates to business combinations that occur after the end of the reporting period but before the financial

Text in AASB 3 *Business Combinations*	Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill*	Comment
disclose the information required by paragraph B64 unless the initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.		statements are authorised for issue. *The IFRS for SMEs* deals only with business combinations that are effected during the period. Accordingly, there is no equivalent to paragraph 66 in the *IFRS for SMEs* and it should be excluded from the RDR.
61 The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods. 62 To meet the objective in paragraph 61, the acquirer shall disclose the information specified in paragraph B67. B67 To meet the objective in paragraph 61, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively: (a) if the initial accounting for a business combination is incomplete (see paragraph 45) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the business combination thus have been determined only provisionally: (i) the reasons why the initial accounting for the business combination is incomplete; (ii) the assets, liabilities, equity interests or	**For all business combinations** 19.26 An acquirer shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately: (a) changes arising from new business combinations. (b) impairment losses. (c) disposals of previously acquired businesses. (d) other changes. This reconciliation need not be presented for prior periods.	Paragraph 61 has no direct equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR. In addition, paragraph 62 and the reference to paragraph 61 in paragraph B67 should be excluded from the RDR. Paragraph B67(d) and paragraph 19.26 of the *IFRS for SMEs* correspond, although paragraph B67(d) may involve a greater amount of detail in some circumstances. Paragraph B67(d) also contains a reference to disposal groups held for sale, which relates to a recognition and measurement difference between AASB 5 and the *IFRS for SMEs*. Paragraph B67(d) should be retained in the RDR. The last sentence of paragraph 19.26 of the *IFRS for SMEs* provides relief from comparative disclosures. Based on the reasoning in paragraph IN3 of this Appendix, the relief should be included in the RDR in respect of paragraph B67(d). Paragraphs B67(a), B67(b), B67(c) and

Text in AASB 3 *Business Combinations*	Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill*	Comment
items of consideration for which the initial accounting is incomplete; and (iii) the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 49. (b) for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires: (i) any changes in the recognised amounts, including any differences arising upon settlement; (ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and (iii) the valuation techniques and key model inputs used to measure contingent consideration. (c) for contingent liabilities recognised in a business combination, the acquirer shall disclose the information required by paragraphs 84 and 85 of AASB 137 for each class of provision. (d) a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately: (i) the gross amount and accumulated		B67(e) have no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.

Text in AASB 3 *Business Combinations*	Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill*	Comment
impairment losses at the beginning of the reporting period. (ii) additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. (iii) adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph 67. (iv) goodwill included in a disposal group classified as held for sale in accordance with AASB 5 and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale. (v) impairment losses recognised during the reporting period in accordance with AASB 136. (AASB 136 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.) (vi) net exchange rate differences arising during the reporting period in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates*.		

Text in AASB 3 *Business Combinations*	Text in *IFRS for SMEs* Section 19 *Business Combinations and Goodwill*	Comment
(vii) any other changes in the carrying amount during the reporting period. (viii) the gross amount and accumulated impairment losses at the end of the reporting period. (e) the amount and an explanation of any gain or loss recognised in the current reporting period that both: (i) relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period; and (ii) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.		
63 If the specific disclosures required by this and other Australian Accounting Standards do not meet the objectives set out in paragraphs 59 and 61, the acquirer shall disclose whatever additional information is necessary to meet those objectives.		Paragraph 63 has no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.

3. AASB 3 *Business Combinations*: Text of Proposed Disclosures

The following are the disclosure requirements of AASB 3 *Business Combinations*, showing requirements from which it is proposed entities applying the RDR should be exempt as shaded text.

Disclosure

59 The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:

- **(a) during the current reporting period; or**
- **(b) after the end of the reporting period but before the financial statements are authorised for issue.**

60 To meet the objective in paragraph 59, the acquirer shall disclose the information specified in paragraphs B64-B66.

B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

- (a) the name and a description of the acquiree.
- (b) the acquisition date.
- (c) the percentage of voting equity interests acquired.
- (d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.
- (e) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.
- (f)[2] the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
  - (i) cash;
  - (ii) other tangible or intangible assets, including a business or subsidiary of the acquirer;
  - (iii) liabilities incurred, for example, a liability for contingent consideration; and
  - (iv) equity interests of the acquirer, including the number of instruments or interests issued or are usable and the method of determining the fair value of those instruments or interests.
- (g) for contingent consideration arrangements and indemnification assets:
  - (i) the amount recognised as of the acquisition date;
  - (ii) a description of the arrangement and the basis for determining the amount of the payment; and

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2 Para. 26.19 of *IFRS for SMEs* states that "For each business combination that was effected during the period, the acquirer shall disclose the following: … (e) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill…"

(iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

(h) for acquired receivables:

(i) the fair value of the receivables

(ii) the gross contractual amounts receivable; and

(iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected.

The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.

(i) the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.

(j) for each contingent liability recognised in accordance with paragraph 23, the information required in paragraph 85 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose:

(i) the information required by paragraph 86 of AASB 137; and

(ii) the reasons why the liability cannot be measured reliably.

(k) the total amount of goodwill that is expected to be deductible for tax purposes.

(l) for transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination in accordance with paragraph 51:

(i) a description of each transaction;

(ii) how the acquirer accounted for each transaction;

(iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and

(iv) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

(m) the disclosure of separately recognised transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of comprehensive income in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed.

(n) in a bargain purchase (see paragraphs 34-36):

(i) the amount of any gain recognised in accordance with paragraph 34 and the line item in the statement of comprehensive income in which the gain is recognised; and

(ii) a description of the reasons why the transaction resulted in a gain.

(o) for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:

  (i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and

  (ii) for each non-controlling interest in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value.

(p) in a business combination achieved in stages:

  (i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and

  (ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42) and the line item in the statement of comprehensive income in which that gain or loss is recognised.

(q) the following information:

  (i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and

  (ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term ‘impracticable’ with the same meaning as in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

B65 For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph B64(e)-(q).

B66 If the acquisition date of a business combination is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer shall disclose the information required by paragraph B64 unless the initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

61 The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

62 To meet the objective in paragraph 61, the acquirer shall disclose the information specified in paragraph B67.

B67 To meet the objective in paragraph 61, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

(a) if the initial accounting for a business combination is incomplete (see paragraph 45) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the business combination thus have been determined only provisionally:

(i) the reasons why the initial accounting for the business combination is incomplete;

(ii) the assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and

(iii) the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 49.

(b) for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

(i) any changes in the recognised amounts, including any differences arising upon settlement;

(ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

(iii) the valuation techniques and key model inputs used to measure contingent consideration.

(c) for contingent liabilities recognised in a business combination, the acquirer shall disclose the information required by paragraphs 84 and 85 of AASB 137 for each class of provision.

(d) a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

(i) the gross amount and accumulated impairment losses at the beginning of the reporting period.

(ii) additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

(iii) adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph 67.

(iv) goodwill included in a disposal group classified as held for sale in accordance with AASB 5 and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale.

(v) impairment losses recognised during the reporting period in accordance with AASB 136. (AASB 136 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)

(vi) net exchange rate differences arising during the reporting period in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates*.

(vii) any other changes in the carrying amount during the reporting period.

(viii) the gross amount and accumulated impairment losses at the end of the reporting period.

RDRB67(d) In respect of entities applying the Reduced Disclosure Regime, the reconciliation in paragraph B67(d) need not be presented for prior periods.

(e) the amount and an explanation of any gain or loss recognised in the current reporting period that both:

(i) relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period; and

(ii) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

63 If the specific disclosures required by this and other Australian Accounting Standards do not meet the objectives set out in paragraphs 59 and 61, the acquirer shall disclose whatever additional information is necessary to meet those objectives. (Commentary)