Commissioner Anesu Daka CA(SA)(Z)

• Chartered Accountant (South Africa);
• Professional Speaker (Toastmasters International);
• Founding & Principal Director of CAA
• Trained Facilitator of Learning
• Passionate Academic & Lecturer for Financial Accounting for ZCTA, ITC and APC and ACCA P2&F7;
• Former IFRS specialist and L&D manager for Ernst & Young Zimbabwe.
• Member of the ICAZ APC and Insurance APC sub-committee, ZAPB and FRMP.
CAA – Our Services

Chartered accountants (ICAZ)
CTA, ITC, APC
ACCA & CIS
Skills and professional

Facilitated Technical Training
In-house Training on IFRS, TAX, Audit and Financial Management

Consulting:
IFRS, TAX, Audit, Advisory,

Publications

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2016 Study Pack
Menu

• Administration
• Exam Study Guide
• Detailed Exam Technique
• Past Exam Analysis & 2016 Exam Scoping
• Revision of Critical Exam Content.
Meaning of “Applied”

Let's say YOU are a Doctor (IFRS Consultant)

You do DIAGNOSIS to a patient to identify the disease(s) - (IFRS Issue(s))

You give medical remedy/medicine for the disease(s) - (Apply IFRS principles to the ISSUE to get a CONCLUSION)
APPLIED FINANCIAL ACC

• Key Areas to focus on:
  – Identifying the Issue in the question (problem diagnosis)
  – Application of accounting, auditing, FinAcc and taxation principles to reach a conclusion on the issue identified (remedy application).
  – UNDERSTANDING THE REQUIRED
  – Exam technique for both theory and calculation questions (Answering the question).
  – Workings & Referencing
Key Areas to focus on:

- Time management
- Layout and presentation
- Hand-writing, verbosity, clear and concise
- Recommendations/interpretations

**NB**: 5 marks are allocated to: Arrangement and layout, clarity of explanation, logical argument and language usage.
Questions
The Accounting Treatment Framework

Purpose:
The understanding of The Accounting Treatment Framework will aid in the following better understanding of how IFRSs are structured and enhances comprehensive application of the IFRS requirements to a particular accounting issue by students, preparers or practitioners.
The Accounting Treatment Framework

- **Objective**
- **Scope** - is it covered under this standard?
- **Identification/definitions**
- **Initial recognition** - is it an asset, a liability, equity instrument, expense or income and what type (PPE, Inventory, intangible, financial, investment property etc )?
- **Initial measurement** - Cost/FV
- **Subsequent Recognition**: depreciation/amortisation, impairment, revaluation/fair-value, gains or losses on disposals, amortisation of interest, e.g..
- **Subsequent measurement**: should it be carried at FV, Rev amt, NRV, cost, PV, replacement cost, Cost less acc depr & impair (HCA) and realisable/settlement value.
- **Derecognition** - settlement
- **Presentation**: is an SoFP item (NCA, CA, NCL, CL, EQUITY) or SCI item (P/L or OCI)?
- **Disclosure**: what information should support the figures presented.
Accounting Treatment

1. Identify transaction - What standard is applicable?
2. Presentation
3. Measurement
4. Disclosure
5. Recognition
Recognition

Which element of AFS?- A, L, E or I & E as per the Conceptual Framework

Subsequent recognition: how should - fv adjustments, revaluation, depreciation, amortization, impairments, e.g.?

Timing:
When should the item be recognised in the AFS?

Classification: What is the type of element? -
And what exactly, e.g. for IAS 17 Finance or operating lease?

Derecognition –
When should the element be removed from the books
• Initial measurement: How is the item measured at initial recognition date?

• Subsequent measurement: At what value do you carry the element and how are is the closing balance measured - FV or Cost- Acc Dep and impairment?
SoP/L & OCI

- Is it P/L?
- Is it OCI?

SOCIE

- Is it Non-Current? or
- Is it Current

- Is it Owners Equity?, or
- NCI?
Disclosure

Accounting Policy Notes

Specific Notes
Answer the question, please!!!!!
Structure: Theory Question

• **Identification of issue(s)**
  – Whether an asset should be recognised for the transportation of Tramline passengers?
  – Whether a provision should be recognised for the free transportation of the Transline Passengers/

• **Application/Discussion**
  – Apply the definition of asset on the scenario to prove an asset
  – Apply the definition of a provision to prove a provision

• **Conclusion**
  – Do not recognised an asset

• **Recommendation:**
  Dr Expense
  Cr Asset/Bank
  Correcting JE
  Prior period errors
Questions.
Framework of Group Accounting

**Assets and Liabilities**
- Acquirer has 100% control
- Are the A&L a business?

**Acquirer**
- Acquires either:

**Shares**
- The Acquiree is a business
- What is the degree of influence?

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Prepared by Anesu Daka CA (SA) (Z)
Acquisition of A&L
IFRS3.3 + B7

Yes, A&L constitute a business
Apply-IFRS3.B7

Apply IFRS 3: Buz Combination
Measure both A&L and Consideration at Acq-date FV

Recognise the difference between Fv of Consideration & A&L as goodwill

NO, A&L does not constitute a business IFRS3.3

Asset Acquisition
Allocate the Consideration to the A&L
No goodwill
Acquisition of Shares

- Voting rights 0-20%
  - Apply IAS32+IFRS 9
    - In Separate Accounts
      - FinAcc 1

- Voting Rights 20%<X>50%
  - Significant influence
    - Associate
      - Separate Accounts
        - IAS 27: Cost or IFRS9-FVTPL or FVTOCI

- Voting Rights X>50%
  - Control
    - Subsidiary
      - Group or Separate
        - IAS 28- Equity Accounting
        - Separate Accounts
          - IFRS3+ IAS 27: Cost or IFRS9-FVTPL or FVTOCI

- Joint Arrangements
  - Joint Control
    - Joint Venture
      - (treat as an associate above)
    - Separate Accounts
      - Joint Operation
        - IFRS11
TUT 102

Test 1
Tutorial Letter 102

1. IAS 27- Separate Financial Statements
2. IFRS10- Consolidation
3. IFRS3- Business Combinations
4. IFRS12- Disclosure of Interest in Other Entities
Consolidation Procedures

IAS 27 – Separate Financial Statements

IFRS10 – Consolidation Procedures
The following key concepts are fundamental to this study unit:
1. At Acquisition adjustments and subsequent recognition
2. Intra-group transactions, balances and un-realised profit
3. Uniform accounting policies
4. Consolidated Profit and Loss
5. Consolidated Statement of Financial Position + Changes in Equity
Consolidation Procedures
An Exam Approach

1. Draw the Group Structure (identify relationships)
2. Understand the required
3. Prepare a consolidation template (apply IFRS 3, 10, 11 and IAS 28)
4. Prepare the consolidated AFS skeletons (IAS 1) as REQUIRED
5. Input amounts into the skeleton as per consolidation template and just for:
   a) IFRS 3 subsequent adjustments
   b) Intra-group transactions, balances and un-realised profits
   c) Changes in interest (Next tutorials)
   d) Attribution to NCI

Prepared by Anesu Daka CA (SA) (Z)
Background

Purchase of shares < 20%: IAS 32, IFRS 9 & 7

Apply IAS 28
Purchase 20%<50% share in a “business”

Apply IFRS 3 at Acquisition date
Purchase > 51% share in a “business”

Apply IFRS 10 & IAS 27 post acquisition and prepare consolidation AFSs

Consolidation
Complex Groups

• Types of group structures:
  – Horizontal
  – Vertical
  – Mixed
Horizontal groups

H Ltd

S
SS
Horizontal groups

H Ltd

S (80%)

SS (58%)
Vertical Consolidation

Two ways:

1. Step-up consolidation – consolidate starting from below to the ultimate parent; or

2. Convert vertical structure to horizontal using effective interest in subsidiaries at parent level. If H Ltd owns 80% in S and S owns 60% in SS, the effective interest of the ultimate parent is 58%.
Consolidation procedures

[Refer:
paragraph 21
Basis for Conclusions paragraph BC154]

Consolidated financial statements:

(a) combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.

(b) offset (eliminate) the carrying amount of the parent’s investment in each subsidiary and the parent’s portion of equity of each subsidiary (IFRS 3 explains how to account for any related goodwill).

(c) eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. IAS 12 Income Taxes applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.
IFRS10.B86(a)

(a) combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.

End of Year separate financial statements parent and subsidiary are added together per IFRS10.B86(a)- see next slide
<table>
<thead>
<tr>
<th></th>
<th>Parent (P) Separate Financial Statements</th>
<th>Subsidiary (S) Financial Statements</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in S Ltd</td>
<td>200</td>
<td>Investments</td>
<td>200</td>
</tr>
<tr>
<td>(cost)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td>100</td>
<td>Trade debtors</td>
<td>350</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>(50)</td>
<td>Share capital</td>
<td>(130)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(150)</td>
<td>Retained earnings</td>
<td>(270)</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term loan</td>
<td>(100)</td>
<td>Long-term loan</td>
<td>(150)</td>
</tr>
</tbody>
</table>

**Note 1**

**Note 2**
Consolidating a Subsidiary

Consolidated P/L and OCI

Income 100%P +100%S +/- consolidation adju
Expenses 100%P+100%S +/- consolidation adju

**Group Profit for the year (100%P+100%S)**

Other Comp Income 100%P +100%S +/- consolidation adju
- Revaluation reserve
- Re-measurement gain/loss

**Group TCI for the year (100%P+100%S)**

**Attributable Section**

Profit for the Year attributable to:
- NCI
- Parent (RE)

Total Comprehensive Income attributable to:
- NCI
- Parent (RE and other reserves)
Consolidating a Subsidiary

Consolidated SFP

ASSETS  
100%P + 100%S +/- consolidation adju

LIABILITIES  
100%P + 100%S +/- consolidation adju

Equity attributable to:

- Parent:
  Share capital of parent only
  RE (100%P + portion of Sub post-acq profits)
  Other reserves (100%P + portion of Sub post-acq OCI)
- NCI (at acquisition value - IFRS3 + post acquisition mvt in TCI +/- B96 and B98 adjustments)
<table>
<thead>
<tr>
<th>Parent (P) Separate Financial Statements</th>
<th>Subsidiary (S) Financial Statements</th>
<th>Total</th>
<th>Pro forma journals</th>
<th>Consolidated Financial Statements (P + S)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td>Investment in S Ltd (cost)</td>
<td>Investments</td>
<td></td>
<td></td>
<td>Investment in S Ltd (cost)</td>
</tr>
<tr>
<td>S Ltd (cost)</td>
<td>200</td>
<td></td>
<td>200</td>
<td>(200)</td>
</tr>
<tr>
<td>Trade debtors</td>
<td>Trade debtors</td>
<td>250</td>
<td>350</td>
<td>Trade debtors</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td><strong>Equity</strong></td>
</tr>
<tr>
<td>Share capital</td>
<td>Share capital</td>
<td>(80)</td>
<td>(130)</td>
<td>Share capital</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>Retained earnings</td>
<td>(120)</td>
<td>(270)</td>
<td>Retained earnings</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td><strong>Liabilities</strong></td>
</tr>
<tr>
<td>Long-term loan</td>
<td>Long-term loan</td>
<td>(50)</td>
<td>(150)</td>
<td>Long-term loan</td>
</tr>
<tr>
<td>Note 1</td>
<td>Note 2</td>
<td></td>
<td>Note 3</td>
<td></td>
</tr>
</tbody>
</table>

Adjust the total amounts
Consolidation Cycle - IFRS10.B86

At acquisition date adjustments

Since Beginning of CY

CY- Post acquisition adjustments

At Acquisition

Subsidiary

Begining of CY

Subsidiary

Prior Year(s)

Current Year

IFRS 3- goodwill

IFRS 10- Consolidation
IFRS 3 at Acquisition adjustments

(b) offset (eliminate) the carrying amount of the parent’s investment in each subsidiary and the parent’s portion of equity of each subsidiary (IFRS 3 explains how to account for any related goodwill).

Pro forma consolidation journal

<table>
<thead>
<tr>
<th>J1</th>
<th>Share Capital (SCE)</th>
<th>Retained earnings (SCE)</th>
<th>Goodwill (SFP) (balancing)</th>
<th>Non-controlling interests (SFP/SCE)</th>
<th>Investment in Sydney Ltd (SFP)</th>
<th>Elimination of owners’ equity at acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr</td>
<td>48 000</td>
<td>11 000</td>
<td>21 200</td>
<td>15 200</td>
<td>65 000</td>
<td></td>
</tr>
<tr>
<td>Cr</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Add Net Assets (A-L) of sub to those of parents
- Recognise the claim on net assets by NCI
- Recognise the diff as goodwill
- Remove the investment recorded by parent
Example of IFRS 3 adjustment

(b) Body owns several trade names which are highly regarded in the market place. Body has invested a significant amount in marketing these trade names and has expensed the costs. None of the trade names has been acquired externally and, therefore, the costs have not been capitalised in the statement of financial position of Body. On the acquisition of Body by Glove, a firm of valuation experts valued the trade names at $5 million and this valuation had been taken into account by Glove when offering $60 million for the investment in Body. The valuation of the trade names is not included in the fair value of the net assets of Body above. Group policy is to amortise intangible assets over ten years.
At acquisition date adjust

Dr Intangible Assets (SFP) 5m
Cr Goodwill (B/F)-SFP 3.6m
Cr Deferred Tax (SFP) (5m*28%) 1.4m

Recognition of additional identifiable assets at fv as required by IFRS3
Post acquisition date

Since beginning adjustment
Dr RE (amortisation net of tax) 0.36m
Dr Def tax (SFP) 0.14m
Cr Acc Amortisation (SFP) 0.5m

Adjustment of prior year profit with additional Amortisation at group level + Dt adjustment

NB: do this before appropriation of RE to NCI
Post acquisition date

Dr Amortization expense (P/L)/RE  0.5m
Cr Acc Amortisation (SFP)  0.5m

Recognition of additional Amortisation at group level

Dr Def tax (SFP)  0.14m
Cr Tax expense /RE  0.14m

NB: do this before appropriation of P/L to NCI
IFRS10.B86(c)- Intra-groups

(c) eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. IAS 12 Income Taxes applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.
Intra-groups

- The following intra-groups between a subsidiary and a parent shall be eliminated:
  - Transactions (sales, purchases, e.g.)
  - Balances (intra-group debtors, creditors, loans, e.g.)
  - Un-realised profits (UP) in intra-group balances
Elimination of Intra-group rules

- Eliminate the whole transaction, balance or UP amount - e.g. 100% elimination;
- Eliminate against the line items presented on the Consol that result from accounting:
  - Revenue vs COS
  - Inventory, PPE, debtors, creditors
  - Gross Profit (Revenue and Cos), Other income (gain/loss on disposal)
  - Deferred tax and tax expense
- Eliminate profit NOT YET realised with 3\textsuperscript{rd} parties (profit included in balances of assets still held by the group at year end)
- Restate the opening balance with unrealised profit as long as the profits have not yet been realised
Elimination of Intra-group rules

- Seller
  - What was sold:
    - Inventory
    - Inventory
    - PPE
  - GP (Rev-COS)
  - Gain on disposal

- Buyer
  - What Was bought:
    - Inventory
    - PPE
  - GP (Rev-COS)
  - PPE

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Elimination of Intra-group rules

Downstream Example (Inventory to Inventory):

Since 1 Jan 20.1, P Ltd with 60% in A Ltd has been selling inventory to A Ltd at a profit of 50% on cost. Included in the inventories of A Ltd on 31/12/2010 and 31/12/2011 is $15000 and $30000 in respect such inventories at cost to A Ltd, respectively. Total sale to A Ltd were $100000. Assume a tax rate of 30%.
Downstream Example:

- **P Ltd**
  
  | Dr Bank | 100000 |
  | Cr Sale | 100000 |
  
  | Dr Cos  | 66667  |
  | Cr Inventory | 66667 |

- **A Ltd**
  
  | Dr Inventory | 100000 |
  | Cr Bank | 100000 |

P has unrealised GP as long as A Ltd has not sold inventory to 3rd parties

A Ltd’s unsold inventory is over-valued at consolidation by the GP made by P
Elimination of Intra-group rules - Downstream Example:

- Opening Inventory
  - Dr RE (SFP) 3500
  - Dr Def tax (SFP) 1500
  - Cr Inv/Cos (P/L) 5000
  - \((15000 \times 50/150) = 5000\)
  - \(2000 \times 30\% = 1500\)
  - Dr Tax Expense (P/L) 1500
  - Cr Deferred tax (SFP) 1500

- Closing Inventory
  - Dr Revenue 100000
  - Cr COS 100000
  - Dr COS 10000
  - Cr Inventory 10000
  - Dr Deferred Tax 3000
  - Cr Tax Expense 3000

• Opening Inventory
• Closing Inventory
Implications of above

- Use the journal entries to effect into P/L and SFP
- Do not adjust the subsidiary’s profit as it did not make the profit so just attribute it as it is.
Elimination of Intra-group rules

Upstream Example (Inventory to Inventory):

Since 1 Jan 201, P Ltd with 60% control in A Ltd has been buying inventory from A Ltd at a profit of 50% on cost. Included in the inventories of P Ltd on 31/12/2010 and 31/12/2011 is $15000 and $30000 in respect such inventories at cost to P Ltd, respectively. Total sale to P Ltd were $100000. Assume a tax rate of 30%
Upstream Example:

• A Ltd- Seller
  Dr Bank  100000
  Cr Sale    100000
  Dr Cos  50000
  Cr Inventory  50000

A has unrealised GP as long as P Ltd has not sold inventory to 3rd parties

• P Ltd- Buyer
  Dr Inventory 100000
  Cr Bank    100000

P Ltd’s unsold inventory is over-valued at consolidation by the GP made by A
Upstream Example:

• Opening Inventory
  Dr RE (SFP) 3500
  Dr Def tax (SFP) 1500
  Cr Inv/Cos (P/L) 5000

(15000*50/150)=5000
2000*30%=1500
Dr Tax Expense (P/L) 1500
Cr Deferred tax (SFP) 1500

• Closing Inventory
  Dr Revenue 100000
  Cr COS 100000
  Dr COS 10000
  Cr Inventory 10000
  Dr Deferred Tax 3000
  Cr Tax Expense 3000
Implications of above

- Use the journal entries to effect into P/L and SFP
- Adjust the subsidiary’s profit as it made the profit before attributing the profit to NCI. The subsidiary profit given is therefore overstated by the unrealized profit
Elimination of Intra-group rules

Example: (Inventory to PPE):

• On 1 January 2009, P sold equipment to A Ltd at a profit of 50% on cost. The equipment is inventory in P. The equipment is still included in the PPE equipment of A Ltd on 31 December 2011. Depreciation is provided at 20% per annum on the cost of the equipment. The cost of the equipment in the books of A Ltd was $15000.

• Assume a 30% Tax Rate
Downstream Example:

**A Ltd - Seller**
- Dr Bank 15000
- Cr Sale 15000
- Dr Cos 10000
- Cr Inventory 10000

**P Ltd - Buyer**
- Dr PPE 15000
- Cr Bank 15000
- Dr Depreciation 3000
- Cr Acc Depreciation 3000

P has unrealised GP as long as A Ltd has not sold equipment to 3rd parties or fully depreciated it.

A Ltd’s unsold PPE is over-valued at consolidation by the GP made by P.
### Elimination of Intra-group rules - Downstream Example:

#### Opening PPE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr RE (SFP)</td>
<td>1400</td>
</tr>
<tr>
<td>Dr Def Tax (SFP)</td>
<td>600</td>
</tr>
<tr>
<td>Dr Acc Dep (SFP)</td>
<td>3000</td>
</tr>
<tr>
<td>Cr PPE (SFP)</td>
<td>5000</td>
</tr>
</tbody>
</table>

\[
PPE(15000 \times 50/150) = 5000
\]

\[
Acc\ Dep\ 5000 \times 20\% \times 3 = 3000
\]

\[
Def\ Tax\ (SFP)(5000-3000) \times 30\% = 600
\]

\[
RE\ (SFP)\ (5000-3000) \times 70\% = 1400
\]

#### Closing PPE

**31 Dec 2009**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Revenue (P/L)</td>
<td>15000</td>
</tr>
<tr>
<td>Cr COS (P/L)</td>
<td>10000</td>
</tr>
<tr>
<td>Cr PPE</td>
<td>5000</td>
</tr>
<tr>
<td>Dr Deferred Tax (SFP)</td>
<td>1500</td>
</tr>
<tr>
<td>Cr Tax Expense (P/L)</td>
<td>1500</td>
</tr>
</tbody>
</table>

**Every Year - 2009 - till 2011**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr acc dep (SFP)</td>
<td>1000</td>
</tr>
<tr>
<td>Cr Depreciation</td>
<td>1000</td>
</tr>
<tr>
<td>5000 \times 20% = 1000</td>
<td></td>
</tr>
<tr>
<td>Dr Tax Expense (P/L)</td>
<td>300</td>
</tr>
<tr>
<td>Cr Deferred Tax (SFP)</td>
<td>300</td>
</tr>
</tbody>
</table>
Implications of the above

• Use the journal entries to effect into P/L and SFP
• Do not adjust the subsidiary’s profit as it did make the profit. The subsidiary profit given is therefore correct rather just attribute to NCI as it is.
Elimination of Unrealised profit in PPE

Downstream

• **Example - PPE to PPE:**

• On 1 January 2009, P sold equipment to A Ltd at a profit of 50% on cost. The equipment is still included in the equipment of A Ltd on 31 December 2011. Depreciation is provided at 20% per annum on the cost of the equipment. The cost of the equipment in the books of A Ltd was $15000.

• Assume a 30% Tax Rate
Downstream Example:

- **P Ltd- Seller**
  
<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Bank</td>
<td>15000</td>
</tr>
<tr>
<td>Cr PPE</td>
<td>10000</td>
</tr>
<tr>
<td>Cr gain on disposal</td>
<td>5000</td>
</tr>
</tbody>
</table>

  P has unrealised gain as long as A Ltd has not sold equipment to 3rd parties or fully depreciated it.

- **A Ltd- Buyer**
  
<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr PPE</td>
<td>15000</td>
</tr>
<tr>
<td>Cr Bank</td>
<td>15000</td>
</tr>
<tr>
<td>Dr Depreciation</td>
<td>3000</td>
</tr>
<tr>
<td>Cr Acc Depreciation</td>
<td>3000</td>
</tr>
</tbody>
</table>

  A Ltd’s unsold PPE is over-valued at consolidation by the GP made by P.
Elimination of Intra-group rules - Downstream Example:

- **Opening PPE**
  - Dr RE (SFP) 1400
  - Dr Def tax (SFP) 600
  - Dr Acc Dep (SFP) 3000
  - Cr PPE (SFP) 5000

  PPE(15000*50/150)= 5000
  Acc Dep 5000*20%*3= 3000
  Def Tax (SFP)(5000-3000)*30%= 600
  RE (SFP) (5000-3000)*70%=1400

- **Closing PPE**
  31 Dec 2009
  - Dr Gain on disposal 5000
  - Cr PPE 5000
  - Dr Deferred Tax (SFP) 1500
  - Cr Tax Expense (P/L) 1500

  Every Year - 2009 till 2011
  - Dr acc dep (SFP) 1000
  - Cr Depreciation 1000
  - 5000*20%=1000
  - Dr Tax Expense (P/L) 300
  - Cr Deferred Tax (SFP) 300

• Opening PPE • Closing PPE

UP

UP realised thru use

transaction

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Accounting for Subsidiary

- **Date of subsidiary's financial statements.** *use the financial statements of the sub as of the same date as the financial statements of the investor unless it is impracticable to do so.* [IFRS 10.B92]

- If it is impracticable, the most recent available financial statements of the sub should be used, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends. However, the difference between the reporting date of the sub and that of the investor **cannot be longer than three months.** [IFRS 10.B93]
Uniform accounting policies

[Refer: paragraph 19]

If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member’s financial statements in preparing the consolidated financial statements to ensure conformity with the group’s accounting policies.
Example: uniform accounting policy

Land with a cost price of R300 000 had a fair value of R400 000 on 1 January 20.11. The value of the land has increased to R450 000 at 31 December 20.11. It is the policy of Colour Ltd to account for land in accordance with the cost model as per IAS 40 Investment Property.

Additional information

- It is the group’s policy to measure investment property using the fair value model as per IAS 40.
<table>
<thead>
<tr>
<th>J7</th>
<th>Land (SFP) (450 000 - 400 000)</th>
<th>50 000</th>
<th>(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value remeasurement (P/L)</td>
<td>50 000</td>
<td>(½)</td>
</tr>
<tr>
<td></td>
<td>Remeasurement in terms of IAS 40</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>J8</th>
<th>Income tax expense (P/L) (50 000 x 28% x 66.6%)</th>
<th>9 324</th>
<th>(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deferred tax (SFP)</td>
<td>9 324</td>
<td>(½)</td>
</tr>
<tr>
<td></td>
<td>Taxation on fair value adjustment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**COMMENT**

Land is carried at cost in the separate records of Colour Ltd. However, it is the group’s policy to account for investment property (which includes land) in accordance with the fair value model as per IAS 40. We therefore need to account for the fair value movement in the value of land at year end. In this case we use the CGT inclusion rate of 66.6% as the fair value adjustment is higher than the original cost price.
Accounting for subsidiary

Dividends on preference shares classified as equity

- If an subsidiary, associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of profit or loss after adjusting for the dividends on such shares, whether or not the dividends have been declared. [IAS 28.37]

E.g.: Profit = (Total profit less preference dividends)
Interim acquisition

- Acquisition of a subsidiary during the year
- ISSUE – profit for the relates to both at acquisition and post acquisition
- Procedures:
  - Examine income and expenditure individually in order to determine basis of apportionment
  - Gains and losses on disposal are usually accrued at a certain point in time
  - Allocate the revenue and expenditure at an appropriate basis provided in the question
  - Profit for the year earned before acquisition is regarded as at-acquisition profit and should be eliminated against investment
  - Only part of profit post acquisition should be accrued in retained earnings
  - Tax should be allocated in the ration of taxable income at and post acquisition

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IFRS 3 BUSINESS COMBINATIONS
Examinability

FQE
• Almost every Exam

UNISA CTA Exams
• Every Exam
Examinability

2016 Possible areas of focus:
Theory questions mainly focusing on:
- acquisition of Asset and Liability
- recognition & measurement
- At Acquisition JE + Subsequent Adjustments
- Calculation of goodwill
Ways in which the topic is examined:

• Usually integrated with consolidations, associates & JV.
• Should IFRS 3 be applied on a transaction or event (theory)
• Identify date of acquisition or the acquirer or acquiree (theory).
• Calculate the purchase consideration
• Initial & Subsequent recognition of A&L acquired
• Calculate goodwill at acquisition
• Calculate re-measurement profit on obtain control through step acquisition
• Discuss the recognition & measurement of A&L at acquisition & post acquisition
• Apply Measurement period principle- provisional accounting
• JEs on any of the above items
Acquisition of A&L
IFRS3.3 + B7

Yes, A&L constitute a business
Apply-IFRS3.B7

Apply IFRS 3: Buz Combination
Measure both A&L and Consideration at Acq-date FV

Recognise the difference between Fv of Consideration & A&L as goodwill

NO, A&L constitute a business IFRS3.3

Asset Acquisition
Allocate the Consideration to the A&L
No goodwill
What is a business Combination?- IFRS3.3

- IFRS3.3. An entity shall determine whether a transaction or other event is a business combination by applying the definition in this IFRS, which requires that the assets acquired and liabilities assumed constitute a business........
What is a business Combination?- IFRS3.3

- **Business Combination** – a **transaction or event** in which an **acquirer** **obtains control** of one or more **businesses**.

- **Procedure to identify business combination:**
  - **IFRS3.3** Apply the definition of business (if it is acquisition of assets, account for as an asset acquisition)
  - Prove existence of the following key elements of the definition:
    - Control (apply IFRS 10)
    - Businesses (apply IFRS 3.B7)
What is Control?

IFRS10.5>

• An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.
# What is Control?

**Old IAS 27**
- Control is the **power to govern** the financial and operating policies of an entity so as to **obtain benefits from its activities**. [IAS 27.4]
- Ability or power to direct or dominate decision making
- An entity controlled by another is a subsidiary, i.e. an entity, including an unincorporated entity such as a partnership. [IAS 27.4]

**IFRS 10- New**
An investor controls an investee when **the investor is exposed**, or **has rights, to variable returns from its involvement with the investee** and **has the ability to affect those returns through its power over the investee**.
What is Control?

**Old IAS 27**

- **Presumed Control**: Control exists when an entity owns directly or indirectly owns more than 50% of the voting rights, unless proven otherwise. [IAS 27.13]

- **Implied Control**: Control can exist where an entity controls 50% or less of the voting rights if any of the following conditions exists:
  - over more than one half of the voting rights by virtue of an agreement with other investors, or
  - to govern the financial and operating policies of the entity under a statute or an agreement; or
  - to appoint or remove the majority of the members of the board of directors; or
  - to cast the majority of votes at a meeting of the board of directors.

**IFRS 10 New**

An investor controls an investee if and only if the investor has all the following:

- **power over the investee** (see paragraphs 10–14);
- **exposure, or rights, to variable returns** from its involvement with the investee (see paragraphs 15 and 16); and
- **the ability to use its power over the investee to affect the amount of the investor’s returns** (see paragraphs 17 and 18).
Purpose and design of an investee

• In the most straightforward case, the investor that holds a majority of those voting rights, in the absence of any other factors, controls the investee.

• An investee may be designed so that voting rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

• In that case: assess the contractual rights for power
Power (IFRS 10.10-15 and B9)

- Power is **existing rights** that give it the current ability to direct the *relevant activities*

- Rights could be in the form of:
  - Voting rights (indicated by shareholding)
  - Contractual rights (explicit or implicit agreements between shareholders)
Power (IFRS 10.10-15 and B9)

Rights that give an investor power over an investee-B15
Examples of rights that, either individually or in combination, can give an investor power include but are not limited to:
(a) rights in the form of voting rights (or potential voting rights) of an investee (see paragraphs B34–B50);
(b) rights to appoint, reassign or remove members of an investee’s key management personnel who have the ability to direct the relevant activities;
(c) rights to appoint or remove another entity that directs the relevant activities;
(d) rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor; and
(e) other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.
Substantive rights – B23

Factors to consider in making that determination include but are not limited to:

• (a) Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights.

• When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive.

• Whether the party or parties that hold the rights would benefit from the exercise of those rights. The terms and conditions of potential voting rights are more likely to be substantive when the instrument is in the money or the investor would benefit for other reasons (e.g., by realising synergies between the investor and the investee) from the exercise or conversion of the instrument.
Power (IFRS 10.10-15 and B9)

Protective rights—B26

Protective rights are designed to protect the interests of their holder without giving that party power over the investee to which those rights relate, an investor that holds only protective rights cannot have power or prevent another party from having power over an investee.

Examples of protective rights include but are not limited to:

• a lender’s right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.

• the right of a party holding a non-controlling interest in an investee to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments.

• the right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.
Power (IFRS 10.10-15 and B9)

Power without a majority of the voting rights

B38 An investor can have power even if it holds less than a majority of the voting rights of an investee. An investor can have power with less than a majority of the voting rights of an investee, for example, through:

• (a) a contractual arrangement between the investor and other vote holders (see paragraph B39);
• (b) rights arising from other contractual arrangements (see paragraph B40);
• (c) the investor’s voting rights (see paragraphs B41–B45);
• (d) potential voting rights (see paragraphs B47–B50); or
• (e) a combination of (a)–(d).
Control......

Potential voting rights [IFRS 10.B47-B50]
• An entity may own share warrants, share call options or convertible equity instruments in a subsidiary.
• Consider the potential voting rights in determining whether the investor controls the subsidiary.
• The rights should be **currently exercisable** at year end
• Consider whether the right are **substantive** (practical ability to exercise that right- see B23 for example of factors that cause potential voting rights not to be substantive)
Example: Potential voting rights

- P Ltd acquired 40% S 3 years ago. At reporting date P holds call options to purchase a further 35% of S. After which it will hold 75% of the total voting rights of S. The options are currently exercisable.

- Should P consolidate S?
Control......

Solution: Potential voting rights

YES

• P must consolidate S as long as it has substantive rights.
• P should consolidate 40% of S’ reserves and show 60% as NCI
Potential Voting Rights

Example 9

• Investor A holds 70 per cent of the voting rights of an investee. Investor B has 30 per cent of the voting rights of the investee as well as an option to acquire half of investor A’s voting rights. The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). Investor A has been exercising its votes and is actively directing the relevant activities of the investee.
Potential Voting Rights

Answer 9

• In such a case, investor A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities. Although investor B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the investee), the terms and conditions associated with those options are such that the options are not considered substantive.
Potential Voting Rights

Example 10

- Investor A and two other investors each hold a third of the voting rights of an investee. The investee’s business activity is closely related to investor A. In addition to its equity instruments, investor A also holds debt instruments that are convertible into ordinary shares of the investee at any time for a fixed price that is out of the money (but not deeply out of the money). If the debt were converted, investor A would hold 60 per cent of the voting rights of the investee.
Potential Voting Rights

Answer 10

• Investor A would benefit from realising synergies if the debt instruments were converted into ordinary shares. Investor A has power over the investee because it holds voting rights of the investee together with substantive potential voting rights that give it the current ability to direct the relevant activities.
Returns include:

- dividends, other distributions of economic benefits from an investee (e.g., interest from debt securities issued by the investee) and changes in the value of the investor’s investment in that investee.
- remuneration for servicing an investee’s assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee’s assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee.
- returns that are not available to other interest holders. For example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor’s other assets.
Returns - IFRS10.15

• An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor’s returns from its involvement have the potential to vary as a result of the investee’s performance.

• The investor’s returns can be only positive, only negative or both positive and negative.
Link between power and returns

• Thus, an investor with decision-making rights shall determine whether it is a principal or an agent. An investor that is an agent in accordance with paragraphs B58–B72 does not control an investee when it exercises decision-making rights delegated to it.
Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

- selling and purchasing of goods or services;
- managing financial assets during their life (including upon default);
- selecting, acquiring or disposing of assets;
- researching and developing new products or processes; and
- determining a funding structure or obtaining funding.

Examples of decisions about relevant activities include but are not limited to:

- (a) establishing operating and capital decisions of the investee, including budgets; and
- (b) appointing and remunerating an investee’s key management personnel or service providers and terminating their services or employment.
Exam Technique: Assessing Control

B2 To determine whether it controls an investee an investor shall assess whether it has control. Control is indicated by all the following:

• Define control as follows:
  – power over the investee;
  – exposure, or rights, to variable returns from its involvement with the investee; and
  – the ability to use its power over the investee to affect the amount of the investor’s returns.
Exam Technique: Assessing Control

B3 Consideration of the following factors may assist in making that determination:

a) the purpose and design of the investee (see paragraphs B5–B8);

b) What are the relevant activities and how decisions about those activities are made (see paragraphs B11–B13) - consider IFRS 10.13 where two or more investors make relevant activities;

c) whether the rights of the investor give it the current ability to direct the relevant activities (see paragraphs B14–B54);

d) whether the investor is exposed, or has rights, to variable returns from its involvement with the investee (see paragraphs B55–B57); and

e) whether the investor has the ability to use its power over the investee to affect the amount of the investor’s returns (see paragraphs B58–B72).

B4 When assessing control of an investee, an investor shall consider the nature of its relationship with other parties (see paragraphs B73–B75).
What is a Business?

- Apply IFRS3-Appendix A-Definitions and Appendix B7-B12
What is a **Business**?

- A **business** is defined as an **integrated set of activities** and **assets** that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants. [IFRS 3.Appendix A]

- **IFRS3.7-.B12.**

- Note that B7 is the most important paragraph to apply in the exam.
What is a Business?

- IFRS 3.B7 implies that a business constitutes the following attributes:

  ![Diagram showing Input, Process, and Output]

- Use the B7 1st para as your introduction, and
- Then:
  - define input and demonstrate inputs from the scenario,
  - Define process and show process from the scenario,
  - And then show how output will result from input and process

Conclude whether acquiree is a business
Definition of a business combination

• Accounting by acquirer for acquisition of A&L.
Example: Purchase of all A & L

- On 31 Dec 2011, P acquired all the assets and liabilities S and paid $10 million in cash. S was subsequently dissolved post acquisition. On that date the net asset value was $7.5 million. The A&L constitutes a business.

- Analysis of fair value of net asset value:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment property</td>
<td>4 million</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1.5 million</td>
</tr>
<tr>
<td>Inventories</td>
<td>1 million</td>
</tr>
<tr>
<td>Debtors</td>
<td>1.5 million</td>
</tr>
<tr>
<td>Creditors</td>
<td><em>(0.5 million)</em></td>
</tr>
<tr>
<td>Net Asset value</td>
<td>7.5 million</td>
</tr>
</tbody>
</table>
Parent Entry: purchase of A & L

- Since the parent has acquired the A&L they shall not be any consolidation. All A&L, including goodwill shall be recognised at acquisition as follows:

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Investment Property</td>
<td>4 m</td>
</tr>
<tr>
<td>Dr PPE</td>
<td>1.5 m</td>
</tr>
<tr>
<td>Dr Inventory</td>
<td>1 m</td>
</tr>
<tr>
<td>Dr Debtors</td>
<td>1.5 m</td>
</tr>
<tr>
<td>DR GOODWILL (10 M – 7.5 M)</td>
<td>2.5 M</td>
</tr>
<tr>
<td>Cr Creditors</td>
<td>0.5 m</td>
</tr>
<tr>
<td>CR BANK</td>
<td>10 M</td>
</tr>
</tbody>
</table>
Definition of a business combination

- Accounting by acquirer for acquisition of shares.

PURCHASE OF ASSETS & LIABILITIES

- Purchase of assets & liabilities of a business
- PURCHASE OF ASSETS ONLY NOT OF A BUSINESS
Example: Asset Acquisition

• On 31 Dec 2011, P acquired all the assets and liabilities S and paid $10 million in cash. S was NOT subsequently dissolved post acquisition because the purchase was not a business acquisition..

• Analysis of fair value of net asset value:

  Investment property 4 million
  Property, plant and equipment 1.5 million
  Inventories 1 million
  Debtors 1.5 million
  Total 8 million
Asset Acquisition

- Since it is not a business combination, it does not result with goodwill. The purchase consideration (bank of 10 million) shall be allocated to the assets based on their relative fair values, as follows:

Allocation of consideration to asset:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Amount</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment property</td>
<td>5 million</td>
<td>(4/8 x 10 m)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1.875 million</td>
<td>(1.5/8 x 10 m)</td>
</tr>
<tr>
<td>Inventories</td>
<td>1.25 million</td>
<td>(1/8 x 10 m)</td>
</tr>
<tr>
<td>Debtors</td>
<td>1.875 million</td>
<td>(1.5/8 x 10 m)</td>
</tr>
<tr>
<td><strong>Total Consideration</strong></td>
<td><strong>10 million</strong></td>
<td></td>
</tr>
</tbody>
</table>
Parent Entry: purchase of A & L

- Since the parent has acquired the A&L they shall not be any consolidation. All A&L, including goodwill shall be recognised at acquisition as follows:

  Dr Investment Property 5 m
  Dr PPE 1.875 m
  Dr Inventory 1.25 m
  Dr Debtors 1.875 m
  CR BANK 10 M

Asset acquisition treated as normal PPE acquisition
Acquisition of Shares

Voting Rights
X>50%
Control
Subsidiary

Separate Accounts
IFRS3+ IAS 27: Cost or IFRS9-FVTPL or FVTOCI

Group
IFRS3+IFRS10- Consolidation
Crossing the accounting boundary - Acquisitions

- IFRS 9
- IAS 28/IFRS 10
- IIFRS3/FRS 10

- Passive
- Significant influence
- Control

0% 20% 50% 100%
Consolidation Cycle

Acquisition Date

PY Post acquisition adjs

Subsidiary

Beginning Since Acquisition

IFRS 3 - goodwill

IFRS 10 - Consolidation

CY Post acquisition adjs

Subsidiary

YEAR
Method of Accounting for Business Combinations

- **Acquisition method.** The acquisition method (called the 'purchase method' in the 2004 version of IFRS 3) is used for all business combinations. [IFRS 3.4]
- **Steps in applying the acquisition method are:** [IFRS 3.5]
  - Identification of the 'acquirer' – the combining entity that obtains control of the acquiree [IFRS 3.7]
  - Determination of the 'acquisition date' – the date on which the acquirer obtains control of the acquiree [IFRS 3.8]
  - Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest (NCI, formerly called minority interest) in the acquiree
  - Recognition and measurement of goodwill or a gain from a bargain purchase
Identifying the acquirer

• Entity that obtains control of the acquiree

What is control?

• Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

• Refer to IAS 27.13 for concept of control (next slide)
Identifying the acquirer

- Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:
  - (a) power over more than half of the voting rights by virtue of an agreement with other investors;
  - (b) power to govern the financial and operating policies of the entity under a statute or an agreement;
  - (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
  - (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.
Identifying the acquirer

Existing Potential Voting Rights (IAS 27.14-15):

- Potential voting rights must be taken into account in determining control if they are currently exercisable.
- Ignore the intention and financial ability to exercise the rights.

E.G

H Ltd has 40% shareholding in S Ltd. S Ltd issued a rights issue, currently exercisable, during the year. H Ltd would have 60% shareholding upon exercising its rights, however, it does not intend to and may not be able to raise the financial support to exercise its right.

Q - Does H Ltd have control over S Ltd

Answer: Yes
Identifying the acquirer

Other consideration from IFRS 3 Appendix B:

- If acquisition consideration is payable by cash, assets and liabilities, the **acquirer** is the one transferring the cash, assets and or liabilities.
- If acquisition consideration is payable by issue of equity, the **acquirer** is the one issuing the equity, except in a reverse takeover.
- If consideration is issue of shares consider:
  - the relative voting rights in the combined entity after the business combination
  - the existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest
  - the composition of the governing body of the combined entity
  - the composition of the senior management of the combined entity
  - the terms of the exchange of equity interests
  - The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profit) is significantly greater than that of the other combining entity or entities.
  - Consider the entity initiating the combination, where a number of entities are involved.
Determination of acquisition date

**Determination of the 'acquisition date'** – the date on which the acquirer obtains control of the acquiree [IFRS 3.8] :

- Normally, date of transfer of the consideration and acquires the assets and assumes the liabilities of the acquiree, namely closing date.

- Acquisition date can be before or after closing date, if for example it is subject to certain suspensive legal conditions, e.g:
  - Successful completion of a due diligence
  - Or obtaining approval permit by the Competition Board

- These suspensive conditions shall be satisfied first before control is obtained, hence, the acquisition date is the date when control is obtained and all suspensive legal conditions are satisfied.
Recognition of Goodwill (IFRS3.32)

- Goodwill is measured as the difference between:
  - the aggregate of:
    - (i) the acquisition-date fair value of the consideration transferred,
    - (ii) the amount of any NCI, and;
    - (iii) in a business combination achieved in stages (see Below), the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree; and
  - the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (measured in accordance with IFRS 3). [IFRS 3.32]

- If the difference above is negative, the resulting gain is recognised as a bargain purchase in profit or loss. [IFRS 3.34]
Goodwill calculation

Fair value of Consideration Transferred/invtment  XX
+ NCI (at FV or % of NAV)  XXX
+ Fair-value of previously held equity interest/invmtn  X
Total fair value of the whole acquiree  XXXXXXX
Less: Fair value of Net identifiable assets  (XXXX)
Goodwill/Negative goodwill  ____XX
Gain on Bargain Purchase

• Negative goodwill results from a bargain purchase (acquirer paid less than the NAV)
• It should be recognised in PROFIT & LOSS at acquisition date, after the following considerations:
  – Re-assess whether all assets and liabilities were identified
  – Review whether measurement procedures were accurate
Consideration transferred to acquire investment - para 37-40)

Accounting by the Acquirer on acquisition of the investment in subsidiary:

- Measure at the FV of the sum of the following:
  - Assets transferred by the acquirer
  - Liabilities incurred by the acquirer to former owners of the acquiree; and
  - Equity interest issued by the acquirer

Dr Investment in S Ltd (balancing figure)
- Cr Bank
- Cr PPE transferred as consideration-CA
- Cr Gain on PPE transferred (FV-CA) (para 38)
- Cr Liability-FV=PV@ mkt rate
- Cr Share capital-FV
- Cr SBP replacement awards
- Cr Contingent consideration liability/equity (para 39-40)

Dr Acquisition related cost (p/l) (only if included in the consideration above)-see next slide
Consideration transferred to acquire investment - para 38)

Accounting by the Acquirer on acquisition of the investment in subsidiary:

Accounting for assets transferred as consideration

• Note: If transferred to shareholders of acquiree
  • re-measure to fair value and recognise a gain on transfer of the difference between the CA and FV

• Note: If transferred to directly to acquiree
  • Do not re-measure, transfer at CA
  • The gain will be Unrealised Profit as the asset will remain in the group.
Consideration transferred to acquire investment

Contingent consideration
What is it?- part of the consideration payable only on the occurrence or non-occurrence of a certain future event (e.g. revenue target, profit target, etc.) after acquisition date as guaranteed by the seller.

Recognition + Classification (see next slide for classification)
Dr Investment in S (include in the cost of investment)
  Cr Contingent consideration equity, and/or
  Cr Contingent consideration liability

See next slide for guidance on classification as equity or liability

Measurement:- measure initially at acquisition date fair value
Contingent consideration
Recognition (IFRS 3.39 and 58) + Classification (IFRS 3.4 IAS 32.11 and 16):

When to classify as “Contingent consideration EQUITY”:
- When NO obligation to pay cash but only to settle with a FIXED number of own equity instruments.

When to classify as “Contingent consideration LIABILITY”:
- When there is an obligation to pay cash, or
- Obligation to settle with a VARIABLE number of own equity instruments

NB: Risk of failure to classify: incorrect subsequent recognition & measurement (see next slide)
Consideration transferred to acquire investment

- **Contingent consideration.** Contingent consideration must be measured at fair value at the time of the business combination. If the amount of contingent consideration changes as a result of a post-acquisition event (such as meeting an earnings target), accounting for the change in consideration depends on whether the additional consideration is an equity instrument or cash or other assets paid or owed. If it is equity, the original amount is not re-measured. If the additional consideration is cash or other assets paid or owed, the changed amount is recognised in profit or loss. If the amount of consideration changes because of new information about the fair value of the amount of consideration at acquisition date (rather than because of a post-acquisition event) then retrospective restatement is required. [IFRS 3.58]

- Refer next slide
Consideration transferred to acquire investment: Contingent consideration

Contingent Consideration
EQUITY
- Do not re-measure after acquisition date
- No subsequent recognition

Contingent Consideration
LIABILITY
- Re-measure to fair value after acquisition.
- The difference/mvt = FV at reporting date less FV at acquisition date
- Post acquisition diff/mvt recognition:
  - Dr Fv adjustment(p/l)
  - Cr Contingent consideration liability
Consideration transferred to acquire investment

Acquisition costs

- Costs of issuing debt or equity instruments are accounted for under IAS 32 and IFRS 9. All other costs associated with the acquisition must be expensed, including reimbursements to the acquiree for bearing some of the acquisition costs. Examples of costs to be expensed include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; and general administrative costs, including the costs of maintaining an internal acquisitions department. [IFRS 3.53]

Dr Other expenses
Dr Share premium (share issue costs)
Dr Debenture (debenture issue costs)
Cr Bank
Recognizing and measurement at acquisition date

Measuring Non-Controlling Interest (N.C.I.) at acquisition date

- Measurement of NCI is optional and could be either:
  - At FV of the NCI’s interest base on the market value of the equity portion (NCI no. Of shares X market price of share); or
  - At NCI % of the net asset value of the business (NCI shareholding % X NAV at)
Measurement of NCI

• IFRS 3 allows an accounting policy choice, available on a transaction by transaction basis, to measure NCI either at:
  – fair value (sometimes called the full goodwill method), or
  – the NCI's proportionate share of net assets of the acquiree (option is available on a transaction by transaction basis).
Example of NCI calculation

**Example:** P pays 800 to purchase 80% of the shares of S.
- Fair value of 100% of S's identifiable net assets is 600.

- If P elects to **measure noncontrolling interests as their proportionate interest in the net assets** of S of 120 (20% x 600), the consolidated financial statements show goodwill of 320 (800 + 120 - 600).

- If P elects to **measure noncontrolling interests at fair value** and determines that fair value to be 185, then goodwill of 385 is recognised (800 + 185 - 600). The fair value of the 20% noncontrolling interest in S will not necessarily be proportionate to the price paid by P for its 80%, primarily due to control premium or discount as explained in paragraph B45 of IFRS 3. [IFRS 3.19]
FV of previously held Interest – para 41-42

Step Acquisition

• Prior to control being obtained, the investment is accounted for under IAS 28, IFRS 11, or IFRS 9, as appropriate. On the date that control is obtained, the fair values of previously held interest is re-measured. Any resulting adjustments to previously recognised assets and liabilities are recognised in profit or loss or OCI as appropriate. Thus, attaining control triggers re-measurement. [IFRS 3.41-42] (NB: this is covered under changes in degree of control)
1. Recognition conditions

- As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 11 and 12:
  - the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework
  - the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination transaction rather than the result of separate transactions
  - Some assets and liabilities unrecognised in the AFS of the acquiree may have to be recognised for consolidation purposes, e.g.:
    - Internal generated Intangible assets (brand name, a patent, e.g.)
    - Contingent liabilities e.t.c
Recognizing and measurement at acquisition date

2. Classification or designating identifiable assets acquired and liabilities assumed in a BC

The designations or classifications shall be made on the basis of contractual terms, economic conditions as they exist at acquisition date.

Two exceptions to this rule:
- Classification of lease contracts (IAS 17); and
- Classification of insurance contracts (IFRS 4)

Classification for these should be based on the contractual terms and other factors at the inception of the contract, or any later modifications.

Refer to page 42 of Group statements. Example 2.7
Recognizing and measurement at acquisition date

Recognition and measurement of a favourable operating lease

• Recognise an **intangible asset** of the PV of the difference between the market related rental payment and actual rental payment, discounted at a market rate over the remaining lease period.

• H Ltd acquires 75% of L ltd. L ltd has a lease with 5 remaining years and pays R50,000 p.a. The market rental in the same area is R58,000 and a fair discount rate is 15%.

• Recognise an intangible asset of R26,817 [pmt =R8K (58K-50K), n=5, i=15%, FV=0]
Recognizing and measurement at acquisition date

Intangible assets in a business combination (IAS 38.33-43)

- Measure at the FV at-acquisition date, using:
  - Quoted market prices, or
  - Price of most recent transaction (with no significant changes); or
  - Replacement value; or
  - Valuation techniques (DCF are acceptable)

- Recognise the intangible asset even if the probability of the future income is uncertain. (thus assume that this is met)

- Recognise separately from goodwill

- IAS 38.11-12 requires intangible assets to be identifiable (separable-leased, sold, transferred or licensed and/or arises from contract or other legal rights)

- Goodwill therefore will only include the intangible assets that can not be separated from the other assets of the entity as a whole (thus, goodwill is the residue or default intangible asset).
Recognizing and measurement at acquisition date

- Measurement principle:
  - **Assets with uncertain cash flows** – take the uncertainty of the future cash flows into account on determining at-acquisition fair values (no allowances for doubtful debts, e.g.)
  - **Measurement of assets subject to operating leases in which the acquiree is the lessor** – the FV of such asset (e.g. Investment property) should take into account the terms of the operating lease. No separate asset shall be accounted for with regards to whether the terms are favourable or unfavourable. (when acquiree is a lessee recognise an intangible asset separately, as shown before).
  - **Assets acquired that the acquirer intends not to use or use in a way that is different from the way other market participant would use them** – measure at-acquisition FV, in relation to its use by other market participants (Example 2.10 of Group Statements, pg 45)
Recognizing and measurement at acquisition date

- Assets and liabilities are measured at their acquisition-date fair value (with a limited number of specified exceptions). [IFRS 3.18]
## Exceptions in recognizing and measurement at acquisition date

<table>
<thead>
<tr>
<th>Nature of Exception</th>
<th>Item affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exception to the RECOGNITION principle</td>
<td>Contingent liabilities—(IFRS 3.22)</td>
</tr>
<tr>
<td>Exceptions to both RECOGNITION &amp; MEASUREMENT principles</td>
<td>Deferred Tax Assets &amp; Liabilities-(IFRS 3.24)</td>
</tr>
<tr>
<td></td>
<td>Employee Benefits-(IFRS 3.26)</td>
</tr>
<tr>
<td></td>
<td>Indemnification Assets-(IFRS 3.27)</td>
</tr>
<tr>
<td>Exceptions to MEASUREMENT principle</td>
<td>Re-acquired Rights- Intangible assets-(IFRS 3.27)</td>
</tr>
<tr>
<td></td>
<td>Share-based payment replacement awards-(IFRS 3.30)</td>
</tr>
<tr>
<td></td>
<td>Non-current asset held for sale-(IFRS 3.31)</td>
</tr>
</tbody>
</table>
Exception

Recognition
### Contingent Liabilities - exception

<table>
<thead>
<tr>
<th>IFRS 3</th>
<th>IAS 37</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Present obligation</strong> may exist, or</td>
<td><strong>Present obligation</strong> may exist, or</td>
</tr>
<tr>
<td><strong>Probability of payment</strong> – less likely</td>
<td><strong>Possible obligation</strong> - <strong>obligating event still to happen</strong></td>
</tr>
<tr>
<td><strong>Timing of payment</strong> - <strong>uncertain</strong></td>
<td><strong>Probability of payment</strong> – less likely</td>
</tr>
<tr>
<td><strong>Amount</strong> –best estimate oof FV</td>
<td><strong>Timing of payment</strong> - <strong>uncertain</strong></td>
</tr>
<tr>
<td><strong>RECOGNIZE</strong> only if there is <strong>present obligation</strong> <strong>IGNORE</strong></td>
<td><strong>Amount</strong> – <strong>uncertain</strong></td>
</tr>
<tr>
<td><strong>probability of outflow</strong></td>
<td><strong>DO NOT RECOGNIZE-JUST DISCLOSE</strong></td>
</tr>
</tbody>
</table>
Recognizing and measurement at acquisition date

Exception to the recognition principle

Contingent liability

Initial recognition & measurement - IFRS 3.23

- Recognised by acquirer if:
  - It is a present obligation that arises from past events; and
  - Its fair value can be reliably measured.
  - Ignore whether the probability of future cash outflow is uncertain

Initial Measurement

- at the acquisition date FV

Subsequent Measurement - IFRS 3.56

- at the higher of:
  - The amount that would be recognised in accordance with IAS 37; and
  - Amount initially recognised, less, any cumulative amortisation recognised with IAS 18 Revenue
### Purchase of shares Vs A&L

#### Purchase of shares- E.G on slide 45
- Dr Equity & Reserves 500,000
- Dr Buildings 100,000
- Cr **Cont liability** 50000
- Cr Def tax (30k-15k) 15000
- Cr Inv in Z 490000
- Cr Non-Controlling interest 107,000
- Cr Gain on Bargain purchase 62,000

#### Purchase of Assets & Liabilities-slide 15
- Dr Investment Property 3 m
- Dr PPE 1.5 m
- Dr Inventory 1 m
- Dr Debtors 1.5 m
- DR GOODWILL 2.5 M
- Cr Creditors 0.4 m
- Cr **Cont liability** 0.1
- CR BANK 10 M

---

Anesu Daka CA (SA) (Z)
Exception

- Recognition
- Measurement
Recognizing and measurement at acquisition date

Income taxes [IFRS 3.24-.25] IAS 12.15 &.24

• Recognise and measure deferred tax asset and liability arising from the assets acquired and liability assumed in a business combination. [IFRS 3.24]

• With limited exceptions, the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill (see paragraph 66).[IAS 12.19]
Deferred Tax at Acquisition Date summary

**IFRS 3**

- Recognise deferred tax as per IAS IFRS 3.24 and support of IAS 12.19,26(c) & 66.
- NB: No deferred tax on initial recognition of goodwill. [IAS12.15(a)]
- Recognise deferred tax of any other identifiable asset or liability recognised or increase/decrease in FV at acquisition date (See example below)[IAS 12.15(b)(i)]

**IAS 12**

- **IAS 12.15.** A deferred tax liability shall be recognised for all taxable temporary differences, EXCEPT to the extent that the deferred tax liability arises from:
  (a) the initial recognition of goodwill; or
  (b) the initial recognition of an asset or liability in a transaction which:
    (i) is not a business combination; and
    (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
1. Deferred Tax at acquisition

Example 1: Illustration of para 18-22 of IAS 12
X acquires 80% of Z ltd on 1 Jan 2011 for $490,000. The equity (Net asset value-NAV) of Z was $500,000 on that date. All assets and liabilities were fairly valued, except for the following:

- Land under valued by $100,000
- Contingent liability of $50,000 was not recognised

Tax rate is 30%
1. Deferred Tax at acquisition

Example 1- solution

- In order to calculate goodwill the building should be increased by the understated fair value adjustment of $100,000, as follows:

<table>
<thead>
<tr>
<th>Descrioption</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Building</td>
<td>$100,000</td>
</tr>
<tr>
<td>Cr Goodwill</td>
<td></td>
</tr>
<tr>
<td>Cr Deferred Tax</td>
<td></td>
</tr>
<tr>
<td>Dr Goodwill</td>
<td>$35,000</td>
</tr>
<tr>
<td>Cr Deferred Tax Asset</td>
<td></td>
</tr>
<tr>
<td>Cr Contingent liability</td>
<td></td>
</tr>
<tr>
<td>Adjusting buildings at consolidation</td>
<td>$70,000</td>
</tr>
<tr>
<td>Adjusting DT at consolidation</td>
<td>$30,000</td>
</tr>
<tr>
<td>Adjusting DT at consolidation</td>
<td>$50,000</td>
</tr>
</tbody>
</table>
2. Deferred Tax at acquisition (alternative JE)

- Example 1 - Alternative Approach

Dr Equity 500,000
Dr Buildings 100,000

Cr Cont liability 50000
Cr Def tax (30k-15k) 15000
Cr Inv in Z 490000
Cr Non-Controlling interest (500k+100k-50k-15k)x20% 107,000
Cr Negative Goodwill 62,000
## Purchase of shares Vs A&L

### Purchase of shares- E.G on slide 45

- **Dr Equity & Reserves**: 500,000
- **Dr Buildings**: 100,000
  - **Cr Cont liability**: 50,000
  - **Cr Def tax (30k-15k)**: 15,000
- **Cr Inv in Z**: 490,000
- **Cr Non-Controlling interest**: 107,000
  - **Cr Gain on Bargain purchase**: 62,000

### Purchase of Assets & Liabilities-slide 15

- **Dr Investment Property**: 3 m
- **Dr PPE**: 1.5 m
- **Dr Inventory**: 1 m
- **Dr Debtors**: 1.5 m
- **Dr GOODWILL**: 2.5 M
  - **Cr Creditors**: 0.4 m
  - **Cr Deferred Tax**: 0.1 m
  - **Cr BANK**: 10 M
Initial recognition of goodwill

- Paragraph 15 (a) prohibits D/T on goodwill.
- TB = CA
- Reason: the deferred tax will reduce the net asset of the subsidiary, which will in turn increase its goodwill.
Recognizing and measurement at acquisition date

Indemnification assets [IFRS 3.27-28]

• Acquiree may cover/protect (indemnify) the acquirer for the outcome of a contingent event related to all or certain assets and or liabilities. (E.g. The seller may guarantee that the acquirer’s liability does exceed a specified amount.)

• Measure the indemnification asset at the same basis as the indemnified item

• See JE in next slide
Purchase of shares Vs A&L

**Purchase of shares- E.G on slide 45**
- Dr Equity & Reserves 500,000
- Dr Buildings 80,000
- **Dr Indemnification asset 20,000**
  - Cr Cont liability 50000
  - Cr Def tax (30k-15k) 15000
  - Cr Inv in Z 490000
  - Cr Non-Controlling interest 107,000
  - Cr Gain on Bargain purchase 62,000

**Purchase of Assets & Liabilities-slide 15**
- Dr Investment Property 3 m
- Dr PPE 1.5 m
- Dr Inventory 1 m
- Dr Debtors 1.5 m
- **Dr Indemnification asset 2**
  - Cr Cont liability 2.1
  - DR GOODWILL 2.6 M
  - Cr Creditors 0.4 m
  - Cr Deferred Tax 0.1 m
  - CR BANK 10 M
Post-acquisition

Dr Contingent Liability
Cr Indemnification asset
Cr Expense (B/F)
IFRS 3.27-28
Recognizing and measurement at acquisition date

• Exceptions to the measurement principle

Re-acquired rights & Pre-existing relationships
(acquirer reacquires a right that it had previously granted to the acquiree, e.g. a franchise right. The right is now being re-acquired through a business combination)

Consolidation

• Recognise an intangible asset for reacquired rights for the PV of the remaining net fair/mkt related benefits receivable at acquisition date. [IFRS 3.29] - See next slide for JE

• Measure on the basis of the remaining contractual term of the related contract and shall not include renewal period

• Subsequently – amortise over the remaining contractual period
  [IFRS 3.55] Dr Amortisation expense (P/L)
  Cr Accumulated Amortisation
## Purchase of shares Vs A&L

### Purchase of shares- E.G on slide 45-

**Proforma JE**

- **Dr Equity & Reserves**: 500,000
- **Dr Buildings**: 80,000
- **Dr Re-acquired right**: 20,000
  - **Cr Cont liability**: 50,000
  - **Cr Def tax (30k-15k)**: 15,000
  - **Cr Inv in Z**: 490,000
  - **Cr Non-Controlling interest**: 107,000
  - **Cr Gain on Bargain purchase**: 62,000

### Purchase of Assets & Liabilities-slide 15-

**Actual JE- in Acquirer**

- **Dr Investment Property**: 2.5 m
- **Dr PPE**: 1.5 m
- **Dr Inventory**: 1 m
- **Dr Debtors**: 1.5 m
- **Dr Re-acquired right**: 0.5 m
- **DR GOODWILL**: 2.5 M
  - **Cr Creditors**: 0.4 m
  - **Cr Cont liability**: 0.1
  - **CR BANK**: 10 M
Re-acquired rights & Pre-existing relationships

• Acquirer- recognises as part of investment the loss or gain terms of the pre-existing contract relationship, the lesser of (i) and (ii)[IFRS 3.B52]:
  i. Amt of which the contract is favourable or favourable from the perspective of the acquirer when compared to current mkt conditions of similar terms
  ii. The amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable
Purchase of shares Vs A&L

**Purchase of shares- E.G on slide 45---Actual JE in Acquirer**

- Dr Investment in shares  **38/42m**
- Dr Acq-related cost (P/L)  **1m**

**Dr Settlement loss  **2 m**

- Cr Settlement gain  **2 m**

- Cr Bank  **6 m**
- Cr Share Capital  **15 m**
- Cr Contingent Consideration  **10m**
- Cr Debenture  **10 m**

**Purchase of Assets & Liabilities-slide 15---Actual JE in Acquirer**

- Dr Investment Property  **2.5 m**
- Dr PPE  **1.5 m**
- Dr Inventory  **1 m**
- Dr Debtors  **1.5 m**

**Dr Re-acquired right  **0.5 m**

**Dr GOODWILL  **2.5 M**

- Cr Creditors  **0.2 m**
- Cr Settlement gain  **0.2 m**
- Cr Cont liability  **0.1 m**
- CR BANK  **10 M**

**Dr Settlement loss  **0.2 m**
Recognizing and measurement at acquisition date

Share-based payment awards

- Recognised and measured in accordance with IFRS 2;
- Mandatory replacements (include in consideration) Vs Non-mandatory (ignore)
- Refer to IFRS 3.56-62 and Illustrative examples 61-71

- For recognition in acquiree and at acquisition valuation value as at date of recognition using original terms.
- For acquirer use the new terms as if the SBP is issued at acquisition date. This should form part of the investment as it is what the acquirer has to pay to acquire the asset (assumed liability) at initial and any subsequent re-measurement.
- Eliminate this investment against the share based payment reserve of the subsidiary at consolidation.
Acquirer’s Replacement Awards

Pre-combination service
- Include in the “Consideration” for the Investment in acquirer’s books

Calculation:
Acquiree Award X completed period
Greater of total or original period

Post-combination
- Expense in P/L

Calculation:
Acquirer awards less pre-combination awards
Recognition: Replacement Awards at acquisition

**Purchase of shares- E.G on slide 45**
- Dr Investment in shares 38
- Dr Acq-related cost (P/L) 1m
- Dr Settlement loss 2 m
  - Cr Bank 6 m
  - Cr Share Capital 15 m
  - Cr Contingent Consideration 10m
  - Cr Debenture 5 m
  - **Cr Share –based RA** 5 m

**Purchase of Assets & Liabilities-slide 15**
- Dr Investment Property 2.5 m
- Dr PPE 1.5 m
- Dr Inventory 1 m
- Dr Debtors 1.5 m
- Dr Re-acquired right 0.5 m
- **DR GOODWILL** 2.5 M
  - Cr Creditors 0.2 m
  - Cr Cont liability 0.1
  - CR BANK 10 M
  - **Cr Share –based RA** 5 m
  - Dr Settlement loss 0.2 m
Accounting in separate books-post acquisition

Parent

Dr Investment in S xx
Cr SBP reserve xx
SBP obligation replaced by parent

Subsidiary

The replacement award is regarded as a modification by the subsidiary but accounted for as per IFRS 2 by Sub

Dr Employee exp (p/l)
Cr SBP reserve xx
Pro-forma JE: Replacement Awards post-acquisition

Dr Equity reserve (recognised by sub)
Dr Employee benefit expense (P/L)- (balancing figure)
Cr Investment in S Ltd (reserve recognised by parent)

This JE eliminates the additional Investment recognised by the parent, and removes the equity reserve recognised by the subsidiary and increases the employee benefit expense by the difference.

NB: the final expense is therefore equal to the parent SBP reserve which has been maintained. S’ SBP should be reversed at group since it has been replaced by the one of the parent.
Recognizing and measurement at acquisition date

Non-current Assets held for sale – IFRS3.31

- Measure at *FV less cost to sale* as per IFRS 5

Dr Non-current assets held for sale  
Cr Goodwill/net asset value
Provisional Accounting/measurement period adjustments- para 45

- If the initial accounting for a business combination can be determined only provisionally by the end of the first reporting period, account for the combination using provisional values. Adjustments to provisional values within one year (12 months) relating to facts and circumstances that existed at the acquisition date. [IFRS 3.45] No adjustments after one year except to correct an error in accordance with IAS 8. [IFRS 3.50 & 58]

- Adjust goodwill for such provisional accounting changes (retrospective accounting)

- Only circumstances that existed at acquisition date should be accounted for if Fv is finalised within 12 months from acquisition date.

- Provisional accounting only relates to the identifiable assets and liabilities acquired and to consideration in very limited circumstance- see para IFRS3.58- contingent consideration.
Disclosure

- 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 during the current reporting period or after the end of the period but before the financial statements are authorised for issue. [IFRS 3.59]

- Among the disclosures required to meet the foregoing objective are the following: [IFRS 3.B64-66]

  - **Disclosure of information about adjustments of past business combinations**

  - 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. [IFRS 3.61]

  - Among the disclosures required to meet the foregoing objective are the following: [IFRS 3.B67]

  - See IFRS 12- for more detail on these disclosures
Questions ?
All the Best in Test 1
CTA Support

Do not take risk with CTA 2.

All the best

CAA is the Key to Your Future!