

## **IFRS 3 *Business Combinations*** (November 2017)

### **Acquisition of a group of assets**

The Committee received a request asking how an entity accounts for the acquisition of a group of assets that does not constitute a business (the group). More specifically, the submitter asked how to allocate the transaction price to the identifiable assets acquired and liabilities assumed when:

- a. the sum of the individual fair values of the identifiable assets and liabilities is different from the transaction price; and
- b. the group includes identifiable assets and liabilities initially measured both at cost and at an amount other than cost.

Paragraph 2(b) of IFRS 3 requires an entity to do the following on acquisition of a group of assets:

- a. identify and recognise the individual identifiable assets acquired and liabilities assumed; and
- b. allocate the cost of the group to the individual identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

Other IFRS Standards include initial measurement requirements for particular assets and liabilities (for example, IFRS 9 Financial Instruments for financial instruments).

The Committee observed that if an entity initially considers that there might be a difference between the transaction price for the group and the sum of the individual fair values of the identifiable assets and liabilities, the entity first reviews the procedures it has used to determine those individual fair values to assess whether such a difference truly exists before allocating the transaction price.

The Committee then considered two possible ways of accounting for the acquisition of the group.

Applying the first approach, an entity accounts for the acquisition of the group as follows:

- a. it identifies the individual identifiable assets acquired and liabilities assumed that it recognises at the date of the acquisition;
- b. it determines the individual transaction price for each identifiable asset and liability by allocating the cost of the group based on the relative fair values of those assets and liabilities at the date of the acquisition; and then
- c. it applies the initial measurement requirements in applicable Standards to each identifiable asset acquired and liability assumed. The entity accounts for any difference between the amount at which the asset or liability is initially measured and its individual transaction price applying the relevant requirements.

Applying the second approach, for any identifiable asset or liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS Standard. The entity deducts from the transaction price of the group the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

The Committee concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches outlined in this agenda decision. The Committee observed that an entity would apply its reading of the requirements consistently to all acquisitions of a group of assets that does not constitute a business. An entity would also disclose the selected approach applying paragraphs 117–124 of IAS 1 Presentation of Financial Statements if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance and financial position.

In the light of its analysis, the Committee considered whether to add a project on the acquisition of a group of assets to its standard-setting agenda. The Committee noted that any such project would not be narrow in scope. With this in mind, the Committee observed that it had not obtained sufficient evidence that the outcomes of applying the two approaches outlined in this agenda decision would be expected to have a material effect on the amounts that entities report. Consequently, the Committee concluded that a project

would not result in an improvement in financial reporting that would be sufficient to outweigh the costs. The Committee therefore decided not to add this matter to its standard-setting agenda.