IFRS Accounting

Staff paper

Agenda reference: 4D

Liabilities assumed in a business combination

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Contents

	Slide
Purpose of this session	3
Fact pattern	4
Possible solutions	5–6
Questions for GPF members	**7**

Purpose of this session

We want to ask for your views about the components of a business combination disclosed as non-cash transactions.*

Supporting material

To help you consider this matter, we include in this material an **illustrative example** that shows how the proposed disclosures for non-cash transactions could work for a business combination.

Note: in this illustration:

a. we disaggregate gross inflows and outflows in the disclosures for non-cash transactions even if those flows arise from the same activity. (See the presentation on '**Payment arrangements with a supplier**' where we ask you about this type of disclosure.)

b. we applied the IASB's tentative decisions in September 2026. At that meeting the IASB decided to propose that **all payments of deferred and contingent consideration** arising from a business combination would be classified as **investing activities**.

- As we noted in Agenda Paper 4A, discussions by the IASB of possible further standard-setting (if any) will focus on any needs that the proposed disclosures would leave unresolved.

Fact pattern—acquiring a subsidiary

Entity P acquires **100% of the share capital of Subsidiary S**. The following Information about the acquisition is **disclosed in a note** detailing the entity's business combinations.

Fair value of assets and liabilities acquired	CU
Inventories	100
Trade receivables	100
Property, plant and equipment	650
Cash	40
Trade payables	(130)
Borrowings	(200)
Net assets acquired	**560**

Fair value of consideration transferred	CU
Cash paid	260
Deferred consideration	190
Own equity	110
Consideration transferred	**560**
Non-cash consideration transferred (560 – 260)	**300**

Note—IAS 7 paragraph 42 states cash paid to obtain control of a subsidiary is reported in the statement of cash flows **net of the cash and cash equivalents acquired** in the transaction, ie, **220**.

Possible solutions (1 of 2)—period of acquisition

Possible disclosures in the reporting period of the acquisition, under **three possible alternatives** for what is reported as a non-cash transaction.

Reporting period of the acquisition	**Alternative 1—non-cash consideration transferred**			**Alternative 2—non-cash consideration transferred + borrowings assumed**			**Alternative 3—non-cash consideration transferred + all liabilities assumed**		
	A	**B**	**C = A+B**	**A**	**B**	**C = A+B**	**A**	**B**	**C = A+B**
Operating activities									
Increase in trade payables								130	130
Investing activities									
Acquisition of Subsidiary S	(220)	(300)	**(520)**	(220)	(500)	**(720)**	(220)	(630)	**(850)**
Increase in deferred consideration		190	190		190	190		190	190
Financing activities									
Increase in borrowings[1]					200	200		200	200
Increase in own equity		110	110		110	110		110	110

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

[1] These are **liabilities that arise from financing activities**—which are already subject to disclosures under IAS 7 today.

Possible solutions (2 of 2)—periods of payments of liabilities

For completeness, we show the cash flows in the reporting periods of payments of liabilities—these are the same for all alternatives.

Reporting period of the payments of liabilities	For all alternatives		
	A	B	C = A+B
Operating activities			
Decrease in trade payables	(130)	No additional disclosure because not a non-cash transaction—only cash payments in these periods.	
Investing activities			
Acquisition of Subsidiary S			
Decrease in deferred consideration	(190)		
Financing activities			
Decrease in borrowings	(200)		
Increase in own equity			

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

Questions for GPF members

QUESTION 1

Considering the fact pattern (**slide 4**):

a. what are your views about separately showing some or all liabilities acquired (as shown on **slide 5)**? Please consider your answer in the context of the three outflows reported for the Acquisition of Subsidiary S in column C:
   i. **520**—net assets acquired (560) excluding cash acquired (40);
   ii. **720**—net assets acquired (560) excluding cash acquired (40) but add borrowings assumed (200); or
   iii. **850**—assets acquired (890) excluding cash acquired (40).

b. are there any practical considerations from any of the illustrated approaches?

c. what other alternatives or numbers, if any, should we consider, and why?

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