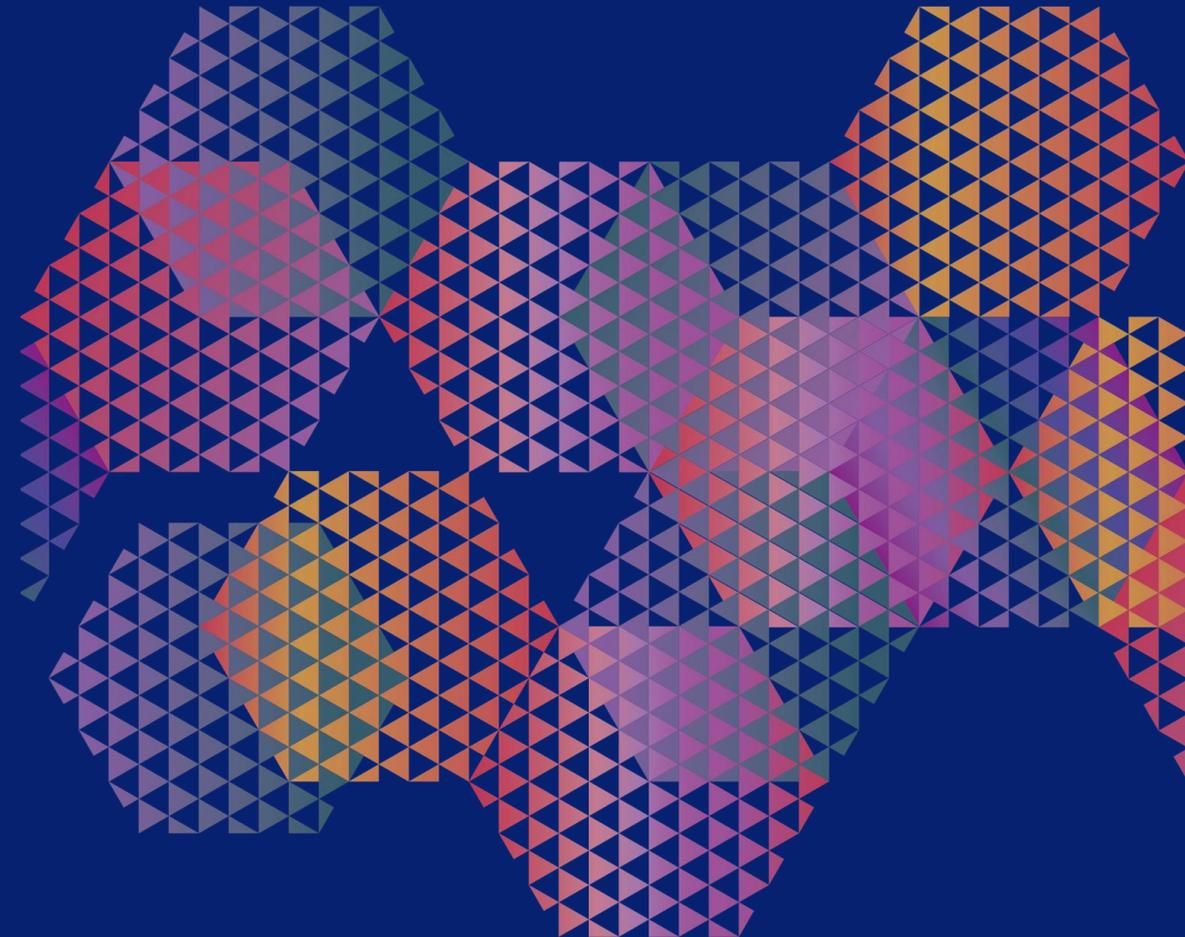


# IFRS for SMEs<sup>®</sup>

## Accounting Standard

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### Section 19 *Business Combinations and Goodwill*



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- 1 Overview of Section 19 *Business Combinations and Goodwill*
- 2 The acquisition method
- 3 New disclosure requirements
- 4 Transition requirements

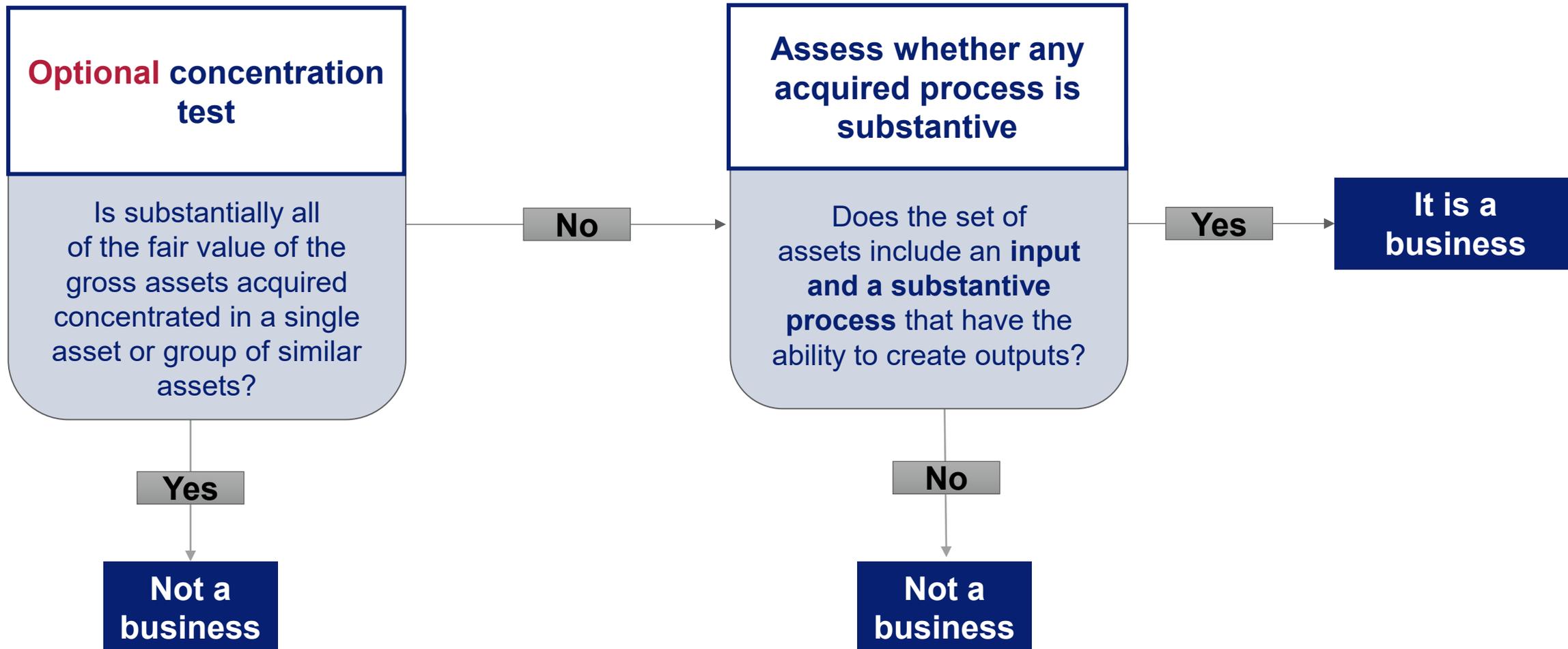
## 1

## Overview of Section 19 *Business Combinations and Goodwill*

Aligned with IFRS 3 *Business Combinations*

- **definition of ‘business’** is aligned with that in IFRS 3
- third edition introduced the **acquisition method of accounting**, including:
  - **new guidance** if a new entity is formed in a business combination
  - **clarification** that an acquirer recognises a contingent liability even if it is not probable that a cash outflow will occur
  - requirement for **contingent consideration** to be recognised at fair value unless doing so would involve undue cost or effort
  - requirements for **step acquisitions**
- **acquisition-related costs** are no longer recognised in consideration transferred

## 1 Definition of a business



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## 2 The acquisition method

The acquisition method has five steps:

- Step 1** Identify the acquirer
- Step 2** Determine the acquisition date
- Step 3** Recognise and measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree
- Step 4** Measure the consideration transferred
- Step 5** Recognise and measure goodwill or a gain from a bargain purchase

## 2 The acquisition method

### Step 1

Identify the acquirer:

- an SME applies Section 9 to identify the entity that obtains control
- an entity newly formed to effect a business combination is not necessarily the acquirer

### Step 2

The acquisition date is the date on which the acquirer obtains control of the acquiree

## 2 The acquisition method

### Step 3

Recognise the identifiable assets acquired and liabilities assumed, and measure at fair value. Except:

- *contingent liabilities*—recognise a contingent liability even if it is not probable that a cash outflow will occur
- *intangible assets*—recognise any that meet the definition in Section 18 subject to undue cost or effort exemption
- *deferred tax*—apply Section 29
- *employee benefits*—apply Section 28

Measure non-controlling interest at proportionate share of the recognised amounts of the acquirer's identifiable net assets

## 2 The acquisition method

### Step 4

Measure the consideration transferred at the sum of:

- the fair value of assets transferred and liabilities assumed by the acquirer
- the fair value of equity instruments issued by the acquirer
- the fair value of contingent consideration—unless measuring fair value would involve undue cost or effort

Add non-controlling interest and the fair value of previously held interests

### Step 5

Recognise and measure goodwill or a gain from a bargain purchase

### 3 New disclosure requirements

#### Changes to the disclosure requirements in Section 19

##### Business combinations during the period

Retains requirement to disclose specific information about each business combination

New requirements to disclose contingent consideration arrangements (amount, description, basis for determining payment) and unrecognised contingent liabilities

##### All business combinations

Retains requirement to disclose useful lives and reconciliation for goodwill

##### Reporting periods after acquisition date

New requirements to disclose outstanding contingent consideration arrangements (changes in amounts, valuation techniques and key inputs)

## 4 Transition requirements

**Leave unadjusted** on date of initial application:

- assets and liabilities from business combinations
- any contingent consideration balances arising from business combinations

If a business combination agreement provided for adjustment to cost:

- contingent on future events
- probable and measured reliably

= include in cost of business combination at acquisition date



**Prospectively apply** revised Section 19 to:

- business combinations for which acquisition date is on or after the date of initial application
- asset acquisitions that occur on or after the date of initial application

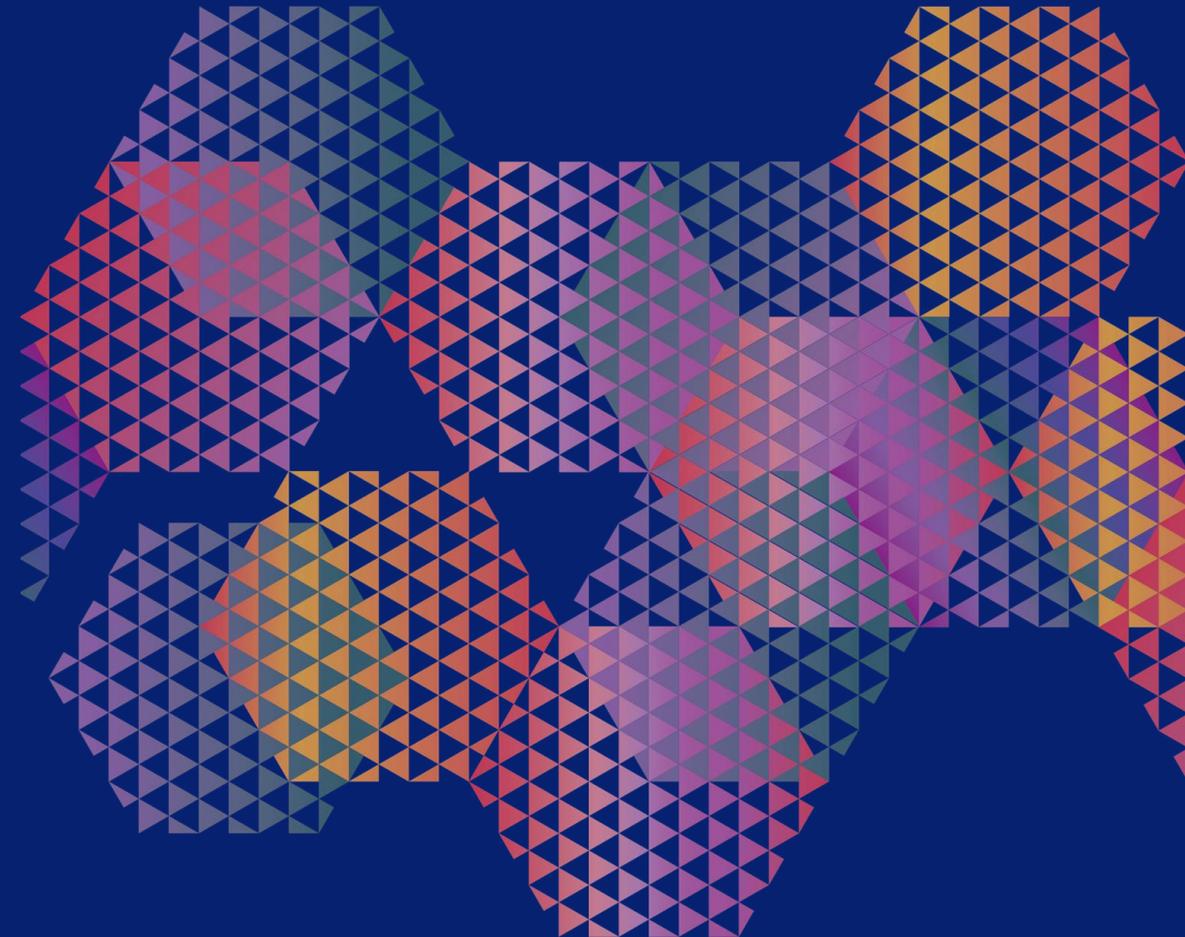
date of initial application  
(e.g. 1 January 2027)

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Supporting materials



## Resources available on the IFRS Foundation's website



<https://www.ifrs.org/supporting-implementation/2025-ifrs-for-smes-supporting-materials/>



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summary



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Statement



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