Business combination or asset acquisition?

In a transaction involving an acquisition of a business or a group of assets, determining whether it meets the definition of a business combination vs. an asset acquisition is imperative to an entity's financial reporting.

An accurate assessment is an integral part of the accounting process, which can have a significant impact on the entity's financial statements.

The following table outlines some of the most common impacts and differences between the accounting requirements for a business combination vs. asset acquisition.

Acquisition Issue	Business	Asset
Purchase price allocation	Measure identifiable assets and liabilities at fair value.	Measure the assets acquired based on their cost, which is generally allocated on a relative fair value basis.
Transaction costs	Transaction costs are expensed.	Transaction costs are capitalized.
Goodwill	Goodwill or bargain purchase gain recognized.	Not permitted.
Deferred taxes	Deferred tax assets and liabilities are recognized.	Initial recognition exemption.
Non-controlling interest (NCI)	NCI is recognized.	NCI is not recognized if the acquisition is not of an entity to be consolidated in accordance with IFRS 10 Consolidated Financial Statements.
Purchase consideration includes equity instruments (classified as equity)	Measured at the fair value of the equity instruments at the date of acquisition.	Equity instruments issued is a share-based payment under IFRS 2 Share-based Payment and the measurement is determined by reference to the fair value of the asset acquired.
Purchase consideration includes equity instruments (classified as liability)	Measured at the fair value of the equity instruments at the date of acquisition. Such instruments are remeasured to fair value at each reporting date until settled (with changes in fair value being recorded in profit or loss).	Share-based payment transaction comprising equity instruments issued, is not subsequently remeasured (unless if cash settled).
Contingent consideration - Initial recognition	Contingent consideration is a financial liability recognized and measured in accordance with IFRS 9 Financial Instruments.	Contingent consideration may also be accounted for as a contingent liability / provision per IAS 37 Provisions, Contingent Liabilities and Contingent Assets, or, may be executory in nature.
Contingent consideration - Subsequent measurement	Changes in the fair value of contingent consideration is recognized in profit or loss (fair value through profit and loss liability).	No explicit guidance on subsequent measurement. Changes in the carrying amount may be either: - recognized in profit or loss, or - capitalized as part of the asset.
Measurement period	Cannot exceed 12 months from date of acquisition.	No measurement period available, and entities need to finalize the accounting for the asset acquisition on the date the transaction occurred.
Disclosures	Significantly more (IFRS 3).	Relatively fewer.
Securities requirement	Also considered a "business" under securities law.	Asset acquisition could be considered a business acquisition for securities law purposes. The term "business" should be evaluated in light of the specific facts and circumstances (refer Part 8 of Companion Policy 51-102CP and OSC Staff Notice 51-728 Corporate Finance Branch 2016-2017 Annual Report).

Consultation with a trusted team of advisors is key prior to any acquisition. At MNP we are committed to your success, in part by ensuring you have the timely, meaningful and reliable information you need to make decisions with confidence.

Contact your local Business Advisor for more solutions or visit MNP.ca

Wherever business takes you MNP.ca