**SCOPE**

**Does not apply to:**
- Formation of a joint arrangement in the financial statements of the joint arrangement itself.
- Acquisition of asset(s) that are not a *business*.
- Combination of entities or businesses under common control.
- The acquisition of an investment in a subsidiary that is measured at fair value through profit or loss by an investment entity.

**DEFINITIONS**

**Business:** integrated set of activities and assets (inputs and processes) that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants (outputs).

**Business combination:** a transaction or other event in which an acquirer obtains control of one or more businesses (e.g. true mergers, mergers of equals, etc.). Might obtain control through:
- Transferring cash, cash equivalents or other assets.
- Incurring liabilities.
- By issuing equity interests.
- Providing more than one type of consideration.
- By contract alone.

**AQUISITION METHOD - APPLY TO ALL BUSINESS COMBINATIONS**

1. **IDENTIFY ACQUIRER**

   Acquirer is the entity that:
   - Obtains *control* per IFRS 10.
   - If IFRS 10 guidance does not clearly indicate the acquirer, then consider:
     - Who transferred cash, other assets or incurred liabilities.
     - Who exchanged equity interests and the terms of the exchange.
     - Relative voting rights and size.
     - Composition of senior management and governing body of combined entity.
   
   **If entity owns directly/indirectly >50% of voting rights → control presumed UNLESS clearly proven that it is NOT control.**
   
   **Where <=50 of voting rights, examples of when control exists:**
   - Power over >50% of voting rights by virtue of an agreement with other investors;
   - Power to govern financial and operating policies under statute/agreement;
   - Power to remove/appoint majority of members of board of directors (or equivalent) that controls the entity; OR
   - Power to cast majority of votes at meetings of board of directors (or equivalent) that controls the entity.

2. **DETERMINE ACQUISITION DATE**

   **Acquisition date:**
   - Date the acquirer obtains *control* of the acquiree.
   - Generally, when acquirer legally transfers consideration, acquires the assets and assumes the liabilities (i.e., the closing date).
   - However, need to consider all facts and circumstances (e.g. a written agreement).

3. **RECOGNIZE AND MEASURE**

   **IDENTIFIABLE ASSETS & LIABILITIES ACQUIRED/ASSUMED**

   Recognition (separate from goodwill):
   All identifiable assets/liabilities acquired/assumed on the *acquisition date* that:
   - Meet the Framework definitions.
   - Part of *business combination* transaction rather than separate transaction.
   - Not part of pre-existing relationship (e.g. vendor).
   
   **Exceptions:**
   - Contingent liabilities.
   - Income taxes.
   - Employee benefits.
   - Indemnification assets.

   **Measurement:**
   - *Acquisition date* fair value.
   
   **Exceptions:**
   - Reacquired rights.
   - Share-based payments.
   - Assets held for sale.

4. **NON-CONTROLLING INTEREST IN ACQUIRER**

   - Present ownership interest with proportionate rights to share of net assets at liquidation:
     - Fair value or;
     - Proportionate share in identifiable net assets recognized.
   - All other components at fair value at *acquisition date*.
   - May use valuation techniques or quoted price in an active market for shares not held by acquirer.

   **Special consideration:**
   - Reverse acquisitions
   - Legal acquirer (entity that issues shares) is acquiree for accounting purposes.

5. **CONSIDERATION TRANSFERRED**

   Sum of the *acquisition date* fair values of the:
   - Assets transferred,
   - Liabilities incurred,
   - Equity interests issued,
   - Contingent consideration payable for the acquiree.

   **Exclude:**
   - Acquisition related costs.
   - Amounts due to pre-existing relationships or separate transactions.

   **Exception:**
   - Share-based payment awards exchanged.

   **Special consideration:**
   - Reverse acquisitions

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This communication contains a general overview of this topic and is current as of March 31, 2017. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person’s use or reliance upon this material. © MNP LLP 2017. All rights reserved.
### GOODWILL OR GAIN FROM BARGAIN PURCHASE

Recognize goodwill as of the **acquisition date** measured as the excess of (a) over (b) below:

- a) The aggregate of:
  - Consideration transferred;
  - Non-controlling interest; and
  - If acquired in stages, previously held equity interest.
- b) Net identifiable assets and liabilities acquired/assumed measured in accordance with IFRS 3.

If (b) exceeds (a), recognize a gain on a bargain purchase in profit or loss.

### MEASUREMENT PERIOD

Provisional amounts reported if initial accounting for the **business combination** is incomplete at end of reporting period.

- **The measurement period:**
  - Ends as soon as the acquirer receives information it was seeking or learns that more information is not obtainable.
  - Does not exceed one year from the **acquisition date**.
- **During the measurement period:**
  - Adjust provisional amounts retrospectively for new information obtained about facts and circumstances that existed and would have affected the measurement at the **acquisition date**.

### SUBSEQUENT MEASUREMENT

Assets acquired, liabilities assumed or incurred and equity instruments issued in a **business combination** in accordance with the relevant IFRS standard, depending on their nature EXCEPT for the following items:

- **Reacquired assets recognized as an intangible asset:**
  - Amortize over remaining contractual period of contract in which right was granted.
  - The carrying amount of reacquired rights subsequently sold to a third party is included in the gain/loss on sale.
- **Contingent liabilities recognized as of the **acquisition date:**
  - Recognized, until settled, cancelled or expired, at the higher of:
    - The amount that would be recognized in accordance with IAS 37; AND
    - The amount initially recognized LESS, if appropriate, the cumulative amortization recognized as per IAS 18.
- **Indemnification assets:**
  - At each subsequent reporting period, an indemnification asset is measured on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and management’s of its collectability (if not measured at fair value).
  - Derecognize when asset is collected, sold or when acquirer otherwise loses its right to it.
- **Contingent consideration:**
  - If changes in fair value of consideration is because of:
    - Additional information obtained regarding facts and circumstances that existed at the **acquisition date** → recognized as measurement period adjustments.
    - Events after the **acquisition date** (e.g. meeting an earnings target, reaching a specified share price, etc.) → contingent consideration classified as equity is not remeasured and its subsequent settlement is recognized within equity while other contingent consideration is remeasured at each reporting date at fair value with the gain/loss recognized in profit/loss.

### 4. DISCLOSURE

- An acquirer shall disclose information that enables the users of its financial statements to evaluate:
  - The nature and financial effect of a **business combination** that occurred during the current reporting period or after the end of the reporting period but prior to the financial statements being authorized for issue.
  - The financial effects of adjustments recognized in the current reporting period that relate to a **business combination** that occurred in the period or a previous reporting period.
- See IFRS 3.B64-.B67 for the specific disclosures required.