IFRS 10 Consolidated Financial Statements
IFRS 3 Business Combinations
IFRS 8 Operating Segments

Nina Sormunen

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Business Combinations (IFRS 3)

IFRS 3
Case

- Which of the following transactions are in the scope of IFRS 3 and why?
  - Company A purchases a building from Company B
  - Company A purchases 100 % of shares in Company C
  - Company A purchases a development project, e.g. test results, rights
  - Company A purchases a development company with only one development project
  - Company A purchases Company B. The owners are the same.

Please share your thoughts with a friend

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Determine the acquisition date
Case

- Based on the information below, please assess the acquisition date to be used for accounting purposes.

A. Letter of intent is signed on 1 January 2016

B. Sale and purchase agreement (SPA) is signed on 15 September 2016

C. According to the contract, the sale will be effective as of 1 January 2017, the expected date of closing

D. Payment of 90% of the purchase price is due 15 days after the SPA has been signed and the remaining 10% 15 days after closing

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Determine the acquisition date
Case 2

- Based on the information below, please assess the acquisition date to be used for accounting purposes.
  A. Letter of intent is signed on 1 January 2016
  B. Sale and purchase agreement (SPA) is signed on 15 September 2016
  C. According to the contract, the sale will be effective as of 1 January 2017, the expected date of closing
  D. Payment of 90% of the purchase price is due 15 days after the SPA has been signed and the remaining 10% 15 days after closing

Same scenario as above but according to the SPA, the sale is effective as of 1 January 2016, the same date as letter of intent was signed. Does this change the conclusion?

Determine the acquisition date
Case 2

- Based on the information below, please assess the acquisition date to be used for accounting purposes.

A. Letter of intent is signed on 1 January 2016

B. Sale and purchase agreement (SPA) is signed on 15 September 2016

C. According to the contract, the sale will be effective as of 1 January 2017, the expected date of closing

D. Payment of 90% of the purchase price is due 15 days after the SPA has been signed and the remaining 10% 15 days after closing

Determine the acquisition date
Case 3

- Based on the information below, please assess the acquisition date to be used for accounting purposes.
  A. Letter of intent is signed on 1 January 2016
  B. Sale and purchase agreement (SPA) is signed on 15 September 2016
  C. According to the contract, the sale will be effective as of 1 January 2017, the expected date of closing
  D. Payment of 90% of the purchase price is due 15 days after the SPA has been signed and the remaining 10% 15 days after closing

Same scenario as above but the contract is contingent upon approval from the competition authorities. Does this change the conclusion?

Cost of acquisition
Case

What would be the cost of acquisition when Entity N acquires Entity M?

- Entity N acquires Entity M. The outflows of economic benefits from Entity N in respect of this transaction are as follows:
  - Entity N issues 1000 new shares to shareholders of Entity M with terms equivalent to those traded on the market. The par value of Entity N's shares is CU2 and the market price of Entity N's shares is CU4.
  - Entity N pays CU1000 in cash to the previous shareholders of Entity M.
  - Entity N has an acquisition department, which incurred CU200 in running costs over the period of completing the business combination. Staff in the department estimate they have spent 25% of their time on the acquisition of Entity M over this period.
  - Entity N incurs liability of CU500 to a customer of Entity M in respect of termination of a supply agreement that was necessitated by the business combination.
  - Entity N will incur expenditure of CU200 on updating Entity M's accounting systems to be consistent with those used by Entity M.
  - Entity N pays accounting fees in relation to the transaction of CU200 and legal fees of CU200.
  - Entity N extends the terms of its finance arrangement in order to obtain the cash required for the transaction. The cost of the extension CU50.

Cost of acquisition
Case

- The following items would be included in the cost of acquisition:

Equity instruments issued	4,000	
Cash		1,000
Liability		500
Total cost of acquisition	**5,500**	

- The liability extension costs would be included in the measurement of the liability that Entity N takes out to finance the acquisition. The CU200 Accounting Fees and CU200 Legal Fees are expensed when incurred. Additionally, the CU50 share of the acquisition department expenses are expensed when incurred.

Subsequent adjustments to the PPA
Case

- Do the following situations require subsequent adjustments?
  A. Six months after the business combination, a factory of the acquired company is sold.
  B. The acquired company has subsequent to the date of acquisition finished the construction of extravagant new headquarters. It turns out that the market value is considerably lower than the carrying amount.
  C. Three months after the date of acquisition, the extravagant headquarters burn to the ground.
  D. The acquired company has completed tests of a new product one week before the date of acquisition, but analysis of the test results is not available until three months after the acquisition.

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  D. The acquired company has completed tests of a new product one week before the date of acquisition, but analysis of the test results is not available until three months after the acquisition.

Operating segments (IFRS 8)

Reportable segments
Case

- A listed company has identified 7 operating segments. The following information is available for the segments as of 31 December 2018 (000)

	External revenue	Internal revenue	Profit or (loss)	Assets
Segment A	3,040	2,440	720	3,170
Segment B	1,460	0	(160)	1,590
Segment C	1,580	60	(60)	1,480
Segment D	1,720	0	120	2,150
Segment E	760	520	150	1,620
Segment F	2,360	1,740	560	3,780
Segment G	1,520	0	(50)	1,460
TOTAL	12,440	4,760	1,280	15,250

Identify reportable segments

Reportable segments
Case – Solution

A. Total revenue (internal & external) is 17,2MEUR (12,44 + 4,76). So a segment must have revenue of at least 1,720MEUR to satisfy the firs 10% test

B. Combined profits are 1,55MEUR and combined losses are 0,27MEUR. The larger is 1,55MEUR. So a segment must have a profit or loss of at least 155TEUR to satisfy the second 10% test

C. Total assets are 15,25MEUR. So a segment must have assets of at least 1,525MEUR to satisfy the third 10% test

Reportable segments
Case – Solution

D. The results of the three 10% tests for each operating segment are as follows

	Total revenue at least 1,72MEUR	Profit or loss at least 0,155MEUR	Assets at least 1,525MEUR	Reportable segment
Segment A	Y	Y	Y	Y
Segment B	N	Y	Y	Y
Segment C	N	N	N	N
Segment D	Y	N	Y	Y
Segment E	N	N	Y	Y
Segment F	Y	Y	Y	Y
Segment G	N	N	N	N
TOTAL	12,440	4,760	1,280	15,250

Segments C & G fail all three of the 10% tests, so these will not be reportable as long as the remaining segments satisfy the 75% test

Reportable segments
Case – Solution

E. 75% of the company’s total external revenue is 9,33MEUR (75% x 12,44MEUR). The total external revenue of reportable segments A, B, D, E and F is 9,34MEUR so the 75% test is satisfied.