

S02.02-AS-02-I.1

I - Goodwill (and Business Combination): General principles

1. Reference texts, objectives, scope, and definitions

1.1. Reference texts

- IFRS 3 - Business combinations
- IAS 27 - Separate Financial Statements
- IAS 28 - Investments in Associates and Joint Ventures
- IAS 39 - Financial Instruments: Recognition and Measurement
- IAS 37 - Provisions, Contingent Liabilities and Contingent Assets
- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations
- IAS 36 - Impairment of Assets
- IAS 21 - The Effects of Changes in Foreign Exchange Rates

1.2. Objectives.

(IFRS 3, par 1)

The objective of this IFRS is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a **business combination** and its effects. To accomplish that, this IFRS establishes principles and requirements for how the **acquirer**:

- a. recognises and measures in its financial statements the **identifiable** assets acquired, the liabilities assumed and any **non-controlling interest** in the **acquiree**;
- b. recognises and measures the **goodwill** acquired in the business combination or a gain from a bargain purchase; and
- c. determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

1.3. Scope

(IFRS 3, par 2)

This IFRS applies to a transaction or other event that **meets the definition of a business combination**. This IFRS does not apply to:

- a. the formation of a joint venture.
- b. the acquisition of an asset or a group of assets that does not constitute a business. In such cases the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, **intangible assets**) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative **fair values** at the date of purchase. **Such a transaction or event does not give rise to goodwill.**
- c. a combination of entities or businesses under common control.

1.4. Definitions

(IFRS 3, Appendix A - Defined terms)

Acquirer: The entity that obtains control of the **acquiree** (**acquiree** = the business or businesses that the **acquirer** obtains control of in a **business combination**).

Acquisition date: The date on which the **acquirer** obtains control of the **acquiree**.

Business: An integrated set of activities and assets 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.

A business is made up of inputs and processes applied to these inputs that can create outputs. Unless demonstrated otherwise, a specific set of assets and activities **including goodwill** should be presumed to form a business. **However, a business does not necessarily contain goodwill.**

Goodwill: An asset representing the future economic benefits arising from other assets acquired in a **business combination** that are not individually identified and separately recognised.

In other words: This is the amount paid for the company over book value. This amount reflects the entity's intangible assets not booked in financial statement (brand, reputation, customer relationship). Only goodwill arising from external acquisition can be booked in the Balance Sheet.

Not to mix with Goodwill on local acquisitions (in French = 'fonds de commerce').

Business combination: A transaction or other event in which an **acquirer** obtains control of one or more **businesses**. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also **business combinations** as that term is used in this IFRS.

An acquirer may obtain control of an acquiree in various ways, such as:

- by transferring cash or equivalents or other assets, including the net assets forming a business;
- incurring liabilities;
- issuing equity shares;
- providing various types of consideration; or
- without transferring a consideration, including exclusively by contract

Contingent consideration: Usually, an obligation of the **acquirer** to transfer additional assets or **equity interests** to the former owners of an **acquiree** as part of the exchange for **control** of the **acquiree** if specified future events occur or conditions are met. However, contingent consideration also may give the **acquirer** the right to the return of previously transferred consideration if specified conditions are met.

Control: The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest: The equity in a subsidiary not attributable, directly or indirectly, to a parent.

IFRS 3 (revised 2008) has an explicit option, available on a transaction-by-transaction basis, to measure any non-controlling interest [NCI] ★ in the entity acquired either at fair value (the so-called full goodwill method) or at the non-controlling interest's proportionate share of the net identifiable assets of the entity acquired. The latter treatment corresponds to the measurement basis in the current version of IFRS 3.

★ *Non-controlling interest is the name for what was used to be called "minority interest".*