**Tutorial business combinations**

EX1- Compay X pays to 200000 $ acquire an 80% interest in the ordinary shares of Compay Y. The aggregated fair value of 100% of Y's identifiable assets and liabilities (determined in accordance withthe requirements of IFRS 3) is 160000$, and the fair value of the non-controlling interest (the remaining 20% holding of ordinary shares) is 36000 $.

**Required-**Calculate NCI using the two methods

**Solution**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |

|  |
| --- |
| **NCI based on fair value** |

 |

|  |
| --- |
| **NCI based on net assets** |

 |
|

|  |  |  |
| --- | --- | --- |
| Consideration transferred |  |  |
| Non-controlling interest |  |  |
|  |  |
| Net assets |  |  |
| Goodwill |

 | 20000036000¹23600016000076000 | 20000032000²23200016000072000 |

**¹ market value of NCI 36000**

**² calculated as 20% of fair value of the net assets 160000**

**Case study**

On january 1,2023, Company (A) purchased 90% of the common shares of Company (B) for an amount of$ 800,000. The acquision resulted in business combinaion.the financial position statement of A and B at combination is presented below :

|  |  |  |
| --- | --- | --- |
|  | **Company A** | **Company B****Book value Fair value** |
| Cash and cash equivalentsAccounts receivableInventoryBuildingsFurniture | 10008007001000200 | 300100200400100 | 30050300450150 |
| **Total assets** | **3700** | **1100** | **1250** |
| Accounts PayableCapitalAdditional CapitalRetained Earnings | 20001000400300 | 600300100100 | 600 |
| Total liabilities and equity | **3700** | **1100** |  |

**Required-** How To account for business combinations under IFRS 3 ?

**Solution-**

1-**Treatment of acquisition**

|  |  |  |
| --- | --- | --- |
|  | **Debit (000)** | **Credit(000)** |
| Investments in B Bank | 800 | 800 |

**2-Goodwill calculation**

Goodwill=Consediration paid – ( Fair value of identifiable assets- contingent liabilities)×90 %

 =800000- ( 1250000-600000)×90% **=215000**

**NCI[[1]](#footnote-2)=** ( 1250000-600000)×10% =65000

3**-Accounting treatment of business combinations**

|  |  |  |
| --- | --- | --- |
|  | **Debit (000)** | **Credit(000** |
| Cash and cash equivalentsAccounts receivableInventoryBuildingsFurnitureGoodwill Investments in B Accounts Payable Non-Controlling Interest  | 30050300450150215 | 80060065 |

**4- Balance sheet after business combinations**

|  |  |
| --- | --- |
|  | **Company A** |
| Cash and cash equivalentsAccounts receivableInventoryBuildingsFurnitureGoodwill | 50085010001450350215 |
| **Total assets** | **4365** |
| Accounts PayableCapitalAdditional CapitalRetained EarningsNCI | 2600100040030062 |
| Total liabilities and equity | **4365** |

1. ) Non-Controlling Interest [↑](#footnote-ref-2)