**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 | | | | | 200000  36000¹  236000  160000  76000 | 200000  32000²  232000  160000  72000 |

**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 equivalents  Accounts receivable  Inventory  Buildings  Furniture | 1000  800  700  1000  200 | 300  100  200  400  100 | 300  50  300  450  150 | |
| **Total assets** | **3700** | **1100** | | **1250** | |
| Accounts Payable  Capital  Additional Capital  Retained Earnings | 2000  1000  400  300 | 600  300  100  100 | | 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 equivalents  Accounts receivable  Inventory  Buildings  Furniture  Goodwill  Investments in B  Accounts Payable  Non-Controlling Interest | 300  50  300  450  150  215 | 800  600  65 |

**4- Balance sheet after business combinations**

|  |  |
| --- | --- |
|  | **Company A** |
| Cash and cash equivalents  Accounts receivable  Inventory  Buildings  Furniture  Goodwill | 500  850  1000  1450  350  215 |
| **Total assets** | **4365** |
| Accounts Payable  Capital  Additional Capital  Retained Earnings  NCI | 2600  1000  400  300  62 |
| Total liabilities and equity | **4365** |

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