

Business Combinations and Consolidation

*CCH Guide to Applying
IFRS 3 and IAS 27*



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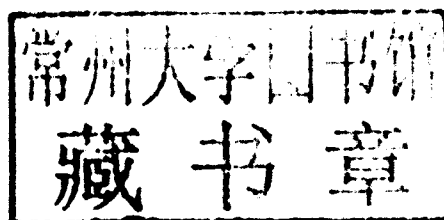
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Tan Liong Tong

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Tan Liong Tong

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Dedication to My

Wife : Lee Guat Keow

Sons : Tan Hanxuan and Tan Hanyi

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Income Taxes'; 'An Application Handbook on FRS 136, Impairment of Assets'; 'An Application Handbook on FRS 111, Construction Contracts, & FRS 201, Property Development Activities'; and 'AccMan Malaysia – The Accountant's Manual'.

PREFACE

The purpose of this Handbook is to help accounting practitioners and students keep up to date with the subjects of accounting for business combinations and consolidation. The International Accounting Standards Board (IASB) has issued the revised IFRS 3 *Business Combinations*, and the revised IAS 27, *Consolidated and Separate Financial Statements*, for application beginning on or after 1 July 2009.

The revised IFRS 3 permits non-controlling interests to be measured at fair value at the acquisition date. Consequently, an acquirer shall measure the acquiree as a whole and goodwill attributable to non-controlling interests shall be recognised. Furthermore, the new IFRS make greater use of fair value by requiring that any previously held interest in an investee shall be measured at fair value at the acquisition date, and the change in fair value, including gains or losses previously recognised in other comprehensive income and deferred in equity, shall be recognised in profit or loss on remeasurement when the increase in stake occurs.

For a decrease in stake that does not result in loss of control, the revised IAS 27 requires that it shall be treated as equity transactions between the parent (controlling) interest and the non-controlling interests. Consequently, no gain or loss shall be recognised in profit or loss. When a loss of control occurs, a parent recognises the gain or loss in profit or loss, and this include remeasurement to fair value, any stake retained in a former subsidiary. Also, the revised IAS 27 requires that losses shall be allocated in full to non-controlling interest even if it results in a deficit to the non-controlling interest in the financial position.

These represent significant changes to the current practice. The consolidation techniques used currently will need to be modified to suit these changes. Thus, it is essential that readers are aware of the principles that have been prescribed in these revised international accounting standards.

There are three chapters in this handbook and each chapter begins with some learning objective. The first chapter focuses on the application aspects of the standards prescribed in IFRS 3. The second chapter is devoted entirely to the application of reverse acquisition accounting, a relatively new method of accounting for business combinations in many countries. Chapter 3 discusses the standards prescribed in the revised IAS 27. Each chapter provides

explanations, illustrations and worked examples on the application aspects of the standards prescribed. Some cases are also provided at the end of each chapter

I am particularly grateful to my wife and children, for without their moral support and patience, the drafting of this handbook would not have been possible.

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1 February 2010

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