Business Combinations and Consolidation

CCH Guide to Applying IFRS 3 and IAS 27

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Dedication to My

Wife	:	*Lee Guat Keow*
Sons	:	*Tan Hanxuan and Tan Hanyi*
Daughters	:	*Tan Xiaowen and Tan Xiaoqi*

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Tan Liong Tong currently serves as a Technical Consultant to Mazars Malaysia. He also serves as a technical advisor to the Financial Reporting Standards Implementation Committee of the Malaysian Institute of Accountants. He was previously an Associate Professor at the Graduate School of Management, Universiti Putra Malaysia. He is member of the Malaysian Institute of Certified Public Accountants (MICPA), the Malaysian Institute of Accountants (MIA) and an Associate Fellow of the Institute of Bankers Malaysia (IBBM).

Mr. Tan has served in various working committees of the Malaysian professional accountancy bodies, including being a Council member of the MICPA and a member of its Accounting and Auditing Technical Committee, and a member of the Accounting & Auditing Standards Committees of the MIA. He was previously engaged as a Technical Consultant to the Malaysian Accounting Standards Board (MASB) and the Securities Commission (SC). He was a member of the Editorial Panel of the Institute of Bankers' Journal. He has also served as an external or chief examiner, an academic advisor, a consultant to various institutions and organisations, and as a project manager for various working groups of the MASB that developed MASB Standards.

Mr. Tan holds a Diploma in Agriculture and a Bachelor of Science in Agribusiness, both from Universiti Putra Malaysia. He also holds a Master in Business Administration from the University of Philippines, Diliman campus. He qualified as a CPA under articleship with an international accounting firm in Kuala Lumpur. His distinguished academic achievements include winning the Chancellor's Gold Medal for being the best overall student in Universiti Putra Malaysia and the Best Overall Performance awards in the MICPA's Foundation and Professional II examinations.

Mr. Tan's research interest lies in the area of financial accounting and reporting practices. He has published numerous research articles, books and monographs in this area of accounting. Apart from this handbook, he has also authored and co-authored various books and manuals, including the popular titles of *'Consolidated Financial Statements, 5th Edition'; 'Financial Accounting & Reporting in Malaysia, 3rd edition, Volumes 1 & 2'; 'A Practical Guide to Deferred Taxation'; 'Share Buybacks and Financial Assistance'; 'Financial Management'; 'Deferred Taxation'; 'An Application Handbook on MASB 25,* *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 of 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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