

Exposure Draft

Definition of a Business Amendments to Ind AS 103

(Last date for Comments: April 6, 2019)



Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft
Definition of Business
(Amendments to Ind AS 103, *Business Combinations*)

Following is the Exposure Draft of the Amendments to Ind AS 103, *Business Combinations*, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India for comments. Objective of the proposed amendments is to clarify the definition of 'Business' to assist the entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods, so as to be received not later than **April 6, 2019**.

1. Electronically: Click on <http://www.icai.org/comments/asb/> to submit comments online. (Preferred method)
2. Email: Comments can be sent to commentsasb@icai.in
3. Postal: Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002.

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Amendments to Ind AS 103, *Business Combinations*

Paragraph 3, the definition of the term ‘business’ in Appendix A and paragraphs B7–B9, B11 and B12 are amended. Paragraphs 64P, B7A–B7C, B8A and B12A–B12D, and headings above paragraphs B7A, B8 and B12, are added. Paragraph B10 is deleted. New text is underlined and deleted text is struck through.

Identifying a business combination

- 3 An entity shall determine whether a transaction or other event is a business combination by applying the definition in this Ind AS, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. Paragraphs B5–~~B12~~B12D provide guidance on identifying a business combination and the definition of a business.**

Effective date and transition

Effective date

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64P *Definition of a Business* (Amendments to Ind AS 103), added paragraphs B7A–B7C, B8A and B12A–B12D, amended the definition of the term ‘business’ in Appendix A, amended paragraphs 3, B7–B9, B11 and B12 and deleted paragraph B10. An entity shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 April, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Appendix A

Defined terms

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business An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generate other income from ordinary activities~~a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.~~

Definition of a business (application of paragraph 3)

B7 A business consists of inputs and processes applied to those inputs that have the ability to ~~create~~ contribute to the creations of outputs. ~~Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business.~~ The three elements of a business are defined as follows (see paragraphs B8-B12D for guidance on the elements of a business:

- (a) **Input:** Any economic resource that creates outputs, or has the ability to ~~create~~ contribute to the creations of outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights and employees.
- (b) **Process:** Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to ~~create~~ contribute to the creations of outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but the intellectual capacity of an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)
- (c) **Output:** The result of inputs and processes applied to those inputs that provide ~~or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants~~ goods or services to customers, generating investment income (such as dividends or interest) or generate other income from ordinary activities.

Optional test to identify concentration of fair value

B7A Paragraph B7B sets out an optional test (the concentration test) to permit a simplified assessment of whether an acquired set of activities and assets is not a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. The concentration test has the following consequences:

- (a) if the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

(b) if the concentration test is not met, or if the entity elects not to apply the test, the entity shall then perform the assessment set out in paragraphs B8–B12D.

B7B The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. For the concentration test:

(a) gross assets acquired shall exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities.

(b) the fair value of the gross assets acquired shall include any consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired. The fair value of the gross assets acquired may normally be determined as the total obtained by adding the fair value of the consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) to the fair value of the liabilities assumed (other than deferred tax liabilities), and then excluding the items identified in subparagraph (a). However, if the fair value of the gross assets acquired is more than that total, a more precise calculation may sometimes be needed.

(c) a single identifiable asset shall include any asset or group of assets that would be recognised and measured as a single identifiable asset in a business combination.

(d) if a tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset (or from an underlying asset subject to a lease, as defined in Ind AS 116, *Leases*), without incurring significant cost, or significant diminution in utility or fair value to either asset (for example, land and buildings), those assets shall be considered a single identifiable asset.

(e) when assessing whether assets are similar, an entity shall consider the nature of each single identifiable asset and the risks associated with managing and creating outputs from the assets (that is, the risk characteristics).

(f) the following shall not be considered similar assets:

(i) a tangible asset and an intangible asset;

(ii) tangible assets in different classes (for example, inventory, manufacturing equipment and automobiles) unless they are considered a single identifiable asset in accordance with the criterion in subparagraph (d);

(iii) identifiable intangible assets in different classes (for example, brand names, licences and intangible assets under development);

(iv) a financial asset and a non-financial asset;

- (v) financial assets in different classes (for example, accounts receivable and investments in equity instruments); and
- (vi) identifiable assets that are within the same class of asset but have significantly different risk characteristics.

B7C The requirements in paragraph B7B do not modify the guidance on similar assets in Ind AS 38, *Intangible Assets*; nor do they modify the meaning of the term ‘class’ in Ind AS 16, *Property, Plant and Equipment*, Ind AS 38, and Ind AS 107, *Financial Instruments: Disclosures*.

Elements of a Business

B8 Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be capable of being conducted and managed for the ~~purposes defined~~ purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs, ~~which together are or will be used to create outputs~~. ~~However, a~~ A business need not include all of the inputs or processes that the seller used in operating that business ~~if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes~~. However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Paragraphs B12-B12D specify how to assess whether a process is substantive.

B8A If an acquired set of activities and assets has outputs, continuation of revenue does not on its own indicate that both an input and a substantive process have been acquired.

B9 The nature of the elements of a business varies by industry and by the structure of an entity’s operations (activities), including the entity’s stage of development. Established businesses often have many different types of inputs, processes and outputs, whereas new businesses often have few inputs and processes and sometimes only a single output (product). Nearly all businesses also have liabilities, but a business need not have liabilities. Furthermore, an acquired set of activities and assets that is not a business might have liabilities.

B10 [Refer Appendix 1]An integrated set of activities and assets in the development stage might not have outputs. If not, the acquirer should consider other factors to determine whether the set is a business. Those factors include, but are not limited to, whether the set:

- (a) ~~has begun planned principal activities;~~

~~(b) has employees, intellectual property and other inputs and processes that could be applied to those inputs;~~

~~(c) is pursuing a plan to produce outputs; and~~

~~will be able to obtain access to customers that will purchase the outputs.~~

~~Not all of those factors need to be present for a particular integrated set of activities and assets in the development stage to qualify as a business.~~

B11 Determining whether a particular set of activities and assets ~~and activities~~ is a business ~~should~~ shall be based on whether the integrated set is capable of being conducted and managed as a business by a market participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquirer intends to operate the set as a business.

Assessing whether an acquired process is substantive

B12 ~~In the absence of evidence to the contrary, a particular set of assets and activities in which goodwill is present shall be presumed to be a business. However, a business need not have goodwill. Paragraphs B12A–B12D explain how to assess whether an acquired process is substantive if the acquired set of activities and assets does not have outputs (paragraph B12B) and if it does have outputs (paragraph B12C).~~

B12A An example of an acquired set of activities and assets that does not have outputs at the acquisition date is an early-stage entity that has not started generating revenue. Moreover, if an acquired set of activities and assets was generating revenue at the acquisition date, it is considered to have outputs at that date, even if subsequently it will no longer generate revenue from external customers, for example because it will be integrated by the acquirer.

B12B If a set of activities and assets does not have outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive only if:

(a) it is critical to the ability to develop or convert an acquired input or inputs into outputs; and

(b) the inputs acquired include both an organised workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. Those other inputs could include:

(i) intellectual property that could be used to develop a good or service;

(ii) other economic resources that could be developed to create outputs; or

(iii) rights to obtain access to necessary materials or rights that enable the creation of future outputs.

Examples of the inputs mentioned in subparagraphs (b)(i)–(iii) include technology, in-process research and development projects, real estate and mineral interests.

B12C If a set of activities and assets has outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive if, when applied to an acquired input or inputs, it:

- (a) is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process (or group of processes); or
- (b) significantly contributes to the ability to continue producing outputs and:
 - (i) is considered unique or scarce; or
 - (ii) cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

B12D The following additional discussion supports both paragraphs B12B and B12C:

- (a) an acquired contract is an input and not a substantive process. Nevertheless, an acquired contract, for example, a contract for outsourced property management or outsourced asset management, may give access to an organised workforce. An entity shall assess whether an organised workforce accessed through such a contract performs a substantive process that the entity controls, and thus has acquired. Factors to be considered in making that assessment include the duration of the contract and its renewal terms.
- (b) difficulties in replacing an acquired organised workforce may indicate that the acquired organised workforce performs a process that is critical to the ability to create outputs.
- ~~(a)~~(c) a process (or group of processes) is not critical if, for example, it is ancillary or minor within the context of all the processes required to create outputs

Appendix 1

Comparison with IFRS 3, *Business Combinations*

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6. Paragraph B10 appears as ‘deleted’ in IFRS 3. In order to maintain consistency with paragraph numbers of IFRS 3, the paragraph number is retained in Ind AS 103.