MATERIALLY DIFFERENT

John Boulton, Faculty Manager, reviews IFRS changes effective for 2010 year-ends.

Changes to IFRS that are mandatory for reporting periods ending in 2010 have the potential to materially impact financial statements. This article highlights some of the main points to be aware of.

ACQUIRERS AND SELLERS BEWARE

Those acquiring and selling businesses need to be aware of the revisions to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*, which apply to accounting periods beginning on or after 1 July 2009. These will involve major changes to existing practice and may have a material impact on the amounts recognised on an acquisition.

IDENTIFIABLE INTANGIBLE ASSETS

Following the revision to IFRS 3 there is likely to be greater scrutiny of the identifiable intangible assets arising on acquisition. The provision in old IFRS 3 that such assets should only be recognised where they were reliably measurable has been removed. As a result, recognition is now required for all identifiable intangibles.

TRANSACTION COSTS

Under old IFRS 3, if costs were incurred that were directly attributable to an acquisition, such as due diligence or legal costs, these were treated as part of the consideration for the transaction. Consequently, such costs were effectively capitalised within the recognised goodwill balance.

Under new IFRS 3, this is no longer permitted. Such costs are now required to be charged to profit or loss either pre- or post-acquisition, depending on when the cost is incurred and the services received.

CONTINGENT CONSIDERATION

Under old IFRS 3, the measurement of purchase consideration was not finalised until the resolution of any contingency affecting its amount. By contrast, new IFRS 3 requires that the fair value of the contingent consideration payable must be determined to reflect conditions as at the acquisition date and finalised during the measurement period without the possibility of later revision to reflect any updated estimates of conditions existing at acquisition date. The measurement period runs up to one year from the acquisition date.

If contingent consideration classified as a liability is ultimately settled for an amount different from the acquisition date fair value as finalised during the measurement period, subsequent adjustments are made through profit or loss and do not affect goodwill.

PARTIAL ACQUISITIONS

One of the most significant changes introduced by new IFRS 3 is the option to measure the minority interest (now the 'non-controlling interest') initially at fair value ie, to include its share of goodwill. The alternative is to measure the non-controlling interest initially at its proportionate share of the acquiree's identifiable net assets ie, to exclude its share of goodwill. As a result of this and the changes to step acquisitions described below, the approach to measurement of goodwill under new IFRS 3 may differ substantially from that found in old IFRS 3.

STEP ACQUISITIONS AND PARTIAL DISPOSALS

Where business combinations are achieved in stages, old IFRS 3 required goodwill to be calculated incrementally at each step. Under new IFRS 3, the only step that is relevant for the purpose of measuring goodwill is the one in which control is acquired. The acquisition fair value exercise is performed at that step only.

Effectively, new IFRS 3 requires that the acquirer builds up a total value/amount for the subsidiary comprising the part that it has just purchased, any part that it held prior to the purchase and any part that it did not purchase. From this is deducted the net sum of the recognised 'fair values' of 100% of the assets acquired and liabilities and contingent liabilities assumed ie, not just the proportionate stake acquired.

New IAS 27 also introduces changes in measurement and presentation when an entity sells part of a business, either while retaining control or otherwise.

A faculty factsheet is available on this topic, *IFRS 3 Revised*. It examines all of the key changes to IFRS 3 and IAS 27 and considers the practicalities of applying the new requirements. If you want a printed copy let us know at frfac@icaew.com

IFRS 2 AND GROUP COMPANIES

An amendment has been published to IFRS 2 *Share-based Payment,* clarifying the treatment where an entity receives goods or services and the liability arising is settled by or with shares in another group company.

The amendment requires the receiving entity to account for the goods or services received regardless of whether it will actually be recharged for the liability. Whether the transaction is accounted for as an equity-settled or cash-settled share-based payment will depend upon the nature of the awards granted and the entity's own rights and obligations.

BEFORE YOU DO ANYTHING ELSE…

IFRS GAAP continues to evolve and, as well as the changes outlined above, there have also been amendments to a number of other standards, many as a result of the 'annual improvements' process. For example, companies may need to reassess the classification of any long leases of land, which following 'improvements' to IAS 17 may be classified as finance leases even where title does not transfer. There are also new IFRIC interpretations addressing non-cash distributions and transfers of assets from customers.

Members involved in 2010 IFRS reporting should consult the list of relevant IFRS changes provided on page 29 and the new faculty factsheet on 2010 changes, *2010 IFRS Accounts*. If you want a printed copy let us know at frfac@icaew.com

FINANCIAL REPORTING UPDATE: CHANGES AND CHALLENGES IN 2010

The Financial Reporting Faculty's first roadshow will bring you up to date on major changes coming into effect in 2010, and the significant areas of change expected in the near future.

WHY SHOULD YOU ATTEND?

Our presenters are technical experts in their fields with a wealth of experience of applying new regulations in practice. These events are highly recommended for both members in business and in practice looking to plan ahead and keep abreast of important developments in the complex financial reporting environment.

This half-day roadshow event will cover:

- Key changes in UK GAAP reporting for 2010
- Key changes in IFRS reporting for 2010
- A look ahead to changes in IFRS
- An overview of the new IFRS for SMEs
- Any key legislative changes and proposals.

Technical presentations will be followed by a panel Q&A session.

DATES, TIMES AND VENUES IN THE SECOND HALF OF 2010

Tuesday 6 July 2010
9:30–12:30
Birmingham Botanical Gardens, Westbourne Road, Edgbaston, Birmingham, B15 3TR

Tuesday 14 September 2010
14.00–17.00
Cedar Court Hotel, Denby Dale Road, Calder Grove, Wakefield, WF4 3QZ

Monday 20 September 2010
14:00–17:00
Chartered Accountants' Hall, Moorgate Place, London, EC2R 6EA
*****FULLY BOOKED*****

Monday 4 October 2010
9:30–12:30
Chartered Accountants' Hall, Moorgate Place, London, EC2R 6EA

SPEAKERS

Each event will feature at least three of the following speakers:

Stephanie Henshaw, Technical Partner at Francis Clark LLP and member of the Faculty Board.
Yvonne Lang, National Technical Director at Smith & Williamson Ltd, and a member of the ICAEW Financial Reporting Committee.
Brian Shearer, National Director of Financial Reporting at Grant Thornton, member of the Faculty Board, the ICAEW Financial Reporting Committee, and the UITF.
Andy Simmonds, Partner at Deloitte, member of the ASB and EFRAG, and Faculty Chairman.
Kathryn Cearns, Consultant Accountant at Herbert Smith LLP, Chair of the Financial Reporting Committee and member of the Faculty Board.

COSTS

Financial Reporting Faculty Member
£70.50

Member of other ICAEW Faculty*
£88.13

Other
£99.88

*Audit and Assurance Faculty, Corporate Finance Faculty, Finance and Management Faculty, Financial Services Faculty, Information Technology Faculty, Tax Faculty.

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