THE POWER OF BEING UNDERSTOOD

U.S. GAAP VS. IFRS: BUSINESS COMBINATIONS AT-A-GLANCE

Increasing globalization coupled with related regulations continues to put pressure on moving towards a common global accounting framework – International Financial Reporting Standards (IFRS). Currently, more than 100 countries use IFRS, so if your business goals include global expansion, it is critical to educate yourself now about the impact of IFRS on your financial reporting processes and business. To gain a better understanding of what IFRS means for your organization, we have prepared a series of comparisons dedicated to highlighting significant differences between IFRS and U.S. generally accepted accounting principles (GAAP). This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for business combinations. For other comparisons available in this series, refer to our U.S. GAAP vs. IFRS comparisons at-a-glance series.

A discussion about U.S. GAAP and IFRS would not be complete without mentioning the status of the Securities and Exchange Commission's (SEC) activities focused on determining whether the application of IFRS by U.S. registrants should be required or allowed. The tone at the SEC on this matter changed recently when they indicated in their draft Strategic Plan for Fiscal Years 2014-2018 *that they will "consider...whether a single set of high-quality global accounting standards is achievable." As a result, it is not clear what the SEC's next steps and timetable are with respect to making a decision about the application of IFRS by U.S. registrants. For more information, refer to our* IFRS Resource Center.

The guidance related to accounting for business combinations in U.S. GAAP is included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combinations*. In IFRS, the guidance related to accounting for business combinations is contained in IFRS 3, *Business Combinations*.

There are a number of similarities between U.S. GAAP and IFRS with respect to the accounting for business combinations. For example, both require business combinations to be accounted for using the acquisition method, which requires most of the assets and liabilities acquired to be measured at their fair values. In addition, both define a business combination as "a transaction or other event in which an acquirer obtains control of one or more businesses." However, "control" is defined differently for purposes of each. This and other significant differences between U.S. GAAP and IFRS with respect to accounting for business combinations are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 805	IFRS 3
Definition of control for purposes of identifying a business combination	For purposes of identifying a business combination, control is defined in FASB ASC 810-10-15-8 as follows: "The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation."	For purposes of identifying a business combination, control is defined in IFRS 10, *Consolidated Financial Statements*, as follows: "An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee."

RSM

	U.S. GAAP	IFRS
Definition of control for purposes of identifying a business combination (cont.)	Additional guidance applies for purposes of determining whether an entity obtains control over (i.e., becomes the primary beneficiary of) a variable interest entity.	
Acquired operating leases	Any operating leases of the acquired entity (whether as lessee or lessor) that have terms that are favorable or unfavorable (compared to market) result in the acquiring entity recognizing an intangible asset or liability, respectively.	The acquiring entity only recognizes an intangible asset or liability for favorable or unfavorable operating leases (compared to market), respectively, if the acquired entity is the lessee.
Acquired contingencies	The acquiring entity recognizes assets and liabilities arising from contingencies at fair value if fair value can be determined. If fair value cannot be determined, then assets and liabilities arising from contingencies are only recognized if it is probable at the acquisition date that an asset or liability exists and if its amount is reasonably estimable.	The acquiring entity recognizes contingent liabilities of the acquired entity if a present obligation exists and its fair value can be measured reliably. The acquiring entity does not record contingent assets.
Subsequent accounting for contingent consideration classified as an asset or liability	Contingent consideration classified as an asset or liability is remeasured to fair value at each reporting date until the contingency is resolved, with changes in fair value recognized in profit or loss under most circumstances.	Accounting for contingent consideration classified as an asset or liability depends on whether the asset or liability is a financial instrument. If the asset or liability is a financial instrument (which will generally be the case), it is remeasured to its fair value at the end of each reporting period with changes in fair value recognized in current period income or other comprehensive income, as appropriate. If the asset or liability is not a financial instrument, it is accounted for in accordance with International Accounting Standard (IAS) 37, *Provisions, Contingent Liabilities and Contingent Assets*, or other applicable IFRS.
Measurement of noncontrolling interest	Noncontrolling interests are measured at fair value, which results in the acquirer recognizing 100 percent of the acquiree's assets (including goodwill) and liabilities and measuring them predominantly at their respective fair values in accordance with ASC 805.	For noncontrolling interests that represent present ownership interests and entitle the holder to a proportionate share of net assets if the entity is liquidated, acquiring entities may elect to measure those interests at either: (a) their full fair value or (b) their proportionate share of the net amount recognized for the acquiree's assets and liabilities. In general, all other noncontrolling interests must be measured at fair value.

These are the significant differences between U.S. GAAP and IFRS when accounting for business combinations. Refer to ASC 805 and IFRS 3 for all of the specific requirements applicable to accounting for business combinations. Refer to our U.S. GAAP vs. IFRS comparisons at-a-glance series for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Contact:

Richard Stuart, Partner
National Accounting Standards Group, RSM US LLP
+1 203 905 5027
richard.stuart@rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International. RSM® and the RSM logo are registered trademarks of RSM International Association. *The power of being understood®* is a registered trademark of RSM US LLP.

© 2015 RSM US LLP. All Rights Reserved.