

IFRS 3 (2008) - major changes and implications

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Bachelor Thesis



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Bachelor Thesis from the year 2008 in the subject Business economics - Accounting and Taxes, grade: 1,7, University of the West of England, Bristol (Bristol Business School (University of the West of England)), course: Accounting in Context, 20 entries in the bibliography, language: English, abstract: This report explains the major changes which companies have to face with the revised IFRS 3 which was published in January 2008. One of them is the introduction of an option when it comes to the recognition of minority interest. The acquiring companies may chose between measuring it with its fair value or, as in the previous version of the standard, with its proportionate share of the net

assets of the acquiree. Comparing the two treatments it becomes obvious that only the fair value measurement leads to the recognition of the part of goodwill which is attributable to the minority interest. This causes lower returns on capital employed and higher equity ratios for firms applying the fair value treatment. Another important modification of the revised IFRS 3 is that acquisition related cost such as legal or adviser fees have to be expensed, which means a cut in profits in the year of the acquisition. Before, those costs have been capitalised with the investment. When it comes to business combinations achieved in stages the revised standard demands that any previously held investment has to be re-measured at its fair value. Any differences to the carrying amount have to be realized as gains or losses. Goodwill is subsequently measured as the excess of the consideration transferred, the value of the re-measured investment and any minority interest over the identifiable net assets of the acquiree.