

U.S. GAAP vs. IFRS: Business combinations

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Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (IASB) (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared [a series of comparisons](#) dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for business combinations.

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

Comparison

The significant differences between U.S. GAAP and IFRS related 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	<p>For purposes of identifying a business combination, control is defined in 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."</p> <p>Additional guidance applies for purposes of determining whether an entity obtains control over a limited partnership or a variable interest entity (as a result of becoming its primary beneficiary).</p>	<p>For purposes of identifying a business combination, control is defined in paragraph 6 of IFRS 10, <i>Consolidated Financial Statements</i>, 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."</p>
Definition of a business	<p>A business must include at least an input and a substantive process that together significantly contribute to the ability to create outputs.</p>	<p>The definition of a business under IFRS does not address whether a process is substantive.</p> <p>The IASB issued amendments to IFRS 3 in October 2018 that more closely align the determination of whether an entity comprises a business or a group of assets with U.S. GAAP, but the amendments are not mandatorily effective for transactions occurring prior to January 1, 2020.</p>
Pushdown accounting	<p>An acquiree has the option to apply pushdown accounting in its separate financial statements when an acquirer obtains control of the acquiree.</p>	<p>IFRS does not contain the notion of pushdown accounting.</p>
Acquired operating leases when acquiree is a lessor	<p>The acquirer recognizes an intangible asset or liability for terms of an operating lease that</p>	<p>The acquirer is not required to recognize an intangible asset or liability related to the operating</p>

	U.S. GAAP	IFRS
	are favorable or unfavorable to market.	lease separate from the leased asset. The terms of the lease factor into the estimate of the leased asset's fair value.
Acquired contingencies	The acquirer 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 acquirer recognizes contingent liabilities of the acquiree if a present obligation exists and its fair value can be measured reliably. The acquirer does not recognize 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 in 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, <i>Provisions, Contingent Liabilities and Contingent Assets</i> , or other applicable IFRS.
Noncontrolling interests	Noncontrolling interests are measured at fair value, which results in the acquirer recognizing 100% 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, acquirers 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

	U.S. GAAP	IFRS
		acquiree's assets and liabilities. In general, all other noncontrolling interests must be measured at fair value.
Measurement period adjustments	The acquirer recognizes adjustments to provisional amounts identified for a business combination in the period the adjustments are determined (instead of retroactively).	The acquirer recognizes any adjustments occurring in the measurement period retroactively.
Combinations of entities under common control	Combinations of entities under common control are accounted for at historic cost for the group.	Combinations of entities under common control are outside the scope of IFRS 3. Entities commonly apply U.S. GAAP or can elect to apply acquisition accounting.

These are the significant differences between U.S. GAAP and IFRS related to accounting for business combinations. Refer to ASC 805 and IFRS 3 for all of the specific requirements applicable to accounting for business combinations. In addition, refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Consult your RSM US LLP service provider concerning your situation and any specific questions you may have. You may also contact us toll-free at 800.274.3978 for a contact person in your area.

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U.S. GAAP vs. IFRS: Business combinations resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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