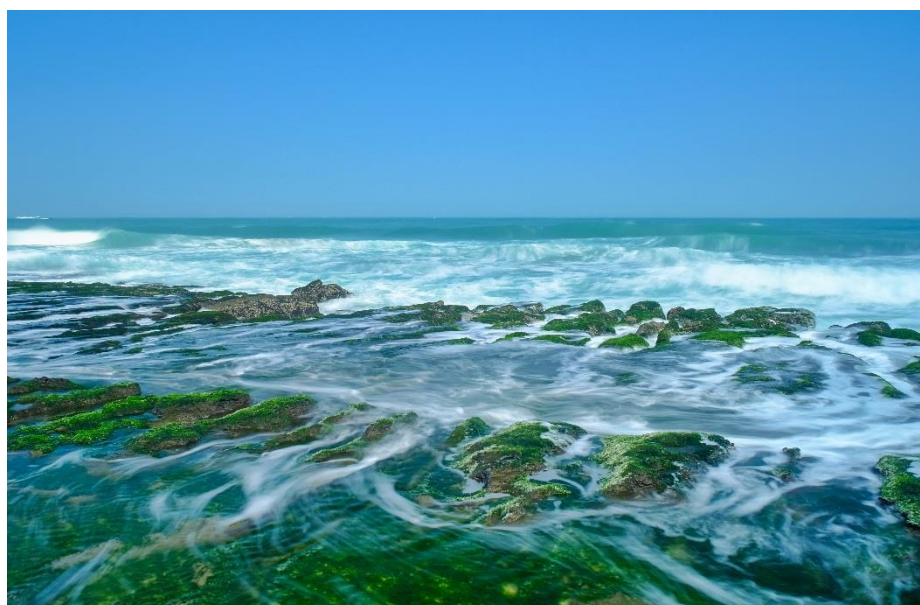


HKFRS / IFRS UPDATE 2019/01

January 2019

www.bdo.com.hk

AMENDMENTS TO HKFRS/IFRS 3 – DEFINITION OF A BUSINESS



STATUS

Final

EFFECTIVE DATE

Acquisitions that occur on or after first annual reporting period beginning on or after 1 January 2020. Early application is permitted.

ACCOUNTING IMPACT

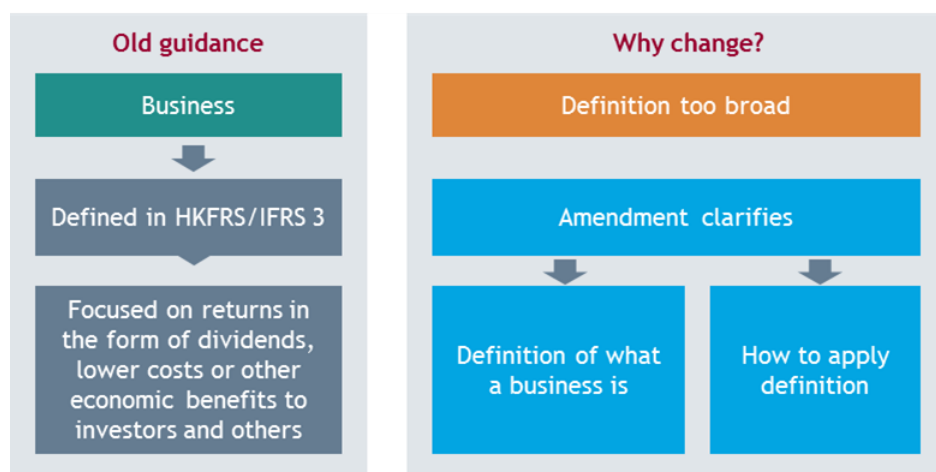
Improvement in applying the concept of a business to acquisitions

Summary

In October 2018, the IASB issued amendments to IFRS 3 *Business Combination* to improve the definition of a business. The amendments arose from a post-implementation review of IFRS, which is an assessment carried out to determine whether an IFRS Standard works as intended. The HKICPA published the equivalent amendments to HKFRS 3 on 18 January 2019.

The amendments and supplementary guidance are intended to help companies determine whether an acquisition is of a business or a group of assets. Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.

A summary of the amendments are as follows:



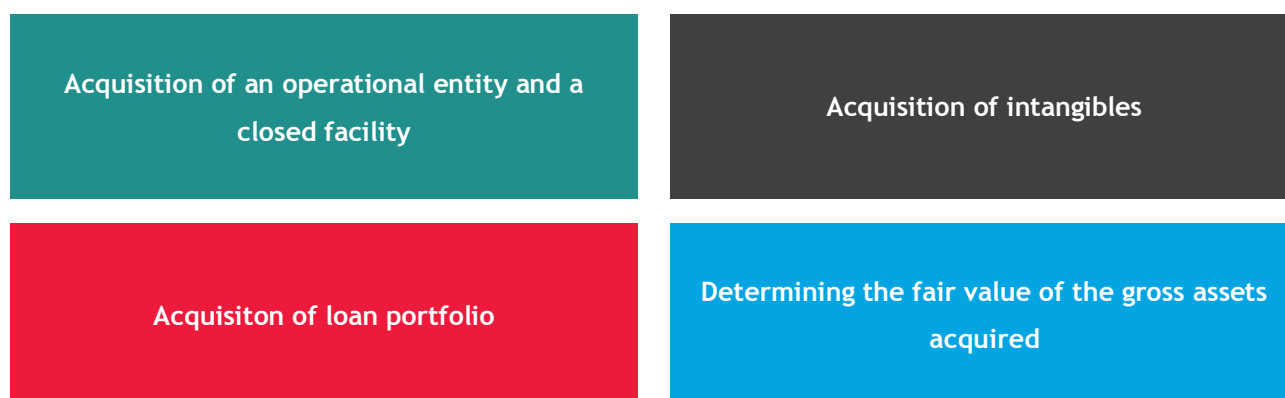
A comparison of the old definition to the new definition is as follows:

Old definition	New definition
An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.	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 generating other income from ordinary activities.

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments:

- clarify that to be considered a business, an acquired 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 outputs;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Additional guidance has also been provided in the illustrative examples to accompany the revised definition, including:



IFRS 3 was the result of a joint project between the IASB and the U.S. Financial Accounting Standards Board (FASB). The FASB amended its definition of a business last year. The amendments to IFRS 3 are based on conclusions similar to those reached by the FASB in amendments it made to its requirements in 2017, although the two sets of amendments differ in some respects. The Board expects that the amendments will lead to more consistency in applying the definition of a business across entities applying IFRS Standards and entities applying US GAAP.

This Update summarises the main points of the amendments. For more information, the full document on the IASB's site can be found [here](#).

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