

DEFINITION OF BUSINESS

VIRTUAL OUTREACH ON RECENT AMENDMENTS IN IND AS
AUGUST 02, 2020



CA. Aparajita Sarkar, Special Invitee, ASB
The Institute of Chartered Accountants of India,
New Delhi, India

Disclaimer: The views expressed herein are solely those of the Presenter and not that of the ICAI or any of its committees. The ICAI or the Preparer of this material do not accept any responsibility for omission or inadequacy of the contents in this document and also for loss caused to any person who acts or refrains from acting in reliance on the contents of this document irrespective of the cause of / reason for the loss.

TOPICS FOR DISCUSSION



ASB, ICAI

- 1 Summary of amendments
- 2 Appendix A – Definition of business
- 3 Appendix B – Application Guidance:
B7- Clarification of 'output'
B7A to 7C- Optional test to identify concentration of fair value
B12B to B12D - How to assess whether a process is substantive

AMENDMENTS TO IND AS 103



ASB, ICAI

Summary

- Clarifications on the definition of a business with the objective to assist entities to determine whether a transaction should be accounted for
 - ✓ as a business combination or
 - ✓ as an asset acquisition
- ✓ 'Goods and services provided to customers' has been included in the definition of business. Returns in the form of lower costs and other economic benefits have been excluded from the definition.
- ✓ Added an optional 'fair value concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is a business or not
- ✓ Added guidance and examples

AMENDMENTS TO IND AS 103



ASB, ICAI

Summary

- ✓ 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.**(B8)
- ✓ 'Business' can exist without including all of the inputs and processes needed to create outputs (BC21F). What is relevant is whether the set of assets and activities, is capable of being conducted and managed as a business.
- ✓ Assessment of business is based on the characteristics of the assets and activities acquired and not on the objective of the acquisition. For eg. the purchase of new manufacturing equipment may be made with the motive of lowering costs but may not be assessed as a business (BC 21S).

AMENDMENTS TO IND AS 103



Amendments to definition of business

Appendix A - Definition of Business Amended	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing <u>goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities</u> a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.
Effective date – Paragraph 64P added	<ul style="list-style-type: none">• Applicable to business combinations with acquisition date on or after 1st April, 2020.• Applicable to asset acquisitions that occur on or after the beginning of that period.

AMENDMENTS TO IND AS 103



ASB, ICAI

Amendment in definition of output

Appendix B
– Application
Guidance of
Definition of
Business –
Paragraph
7(c)-
definition of
output

Output: The result of inputs and processes applied to those inputs that provide ~~or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.~~ goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities.

AMENDMENTS TO IND AS 103

DEFINITION OF BUSINESS



Optional test to identify concentration of fair value

Appendix B
- Paragraph
B7A-B7C
Added

- Optional test (the concentration test) to permit a simplified assessment of whether an acquired set of activities and assets is not a business.
- Require :
 - if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset, or group of similar identifiable assets,
 - ✓ the concentration test is met and the set of activities and assets is considered not to be a business;
 - ✓ no further assessment is needed.
- Concentration test designed to reduce cost and complexity by avoiding the need for a detailed assessment in some circumstances.
- Does not prohibit an entity from carrying out the detailed assessment required by paragraphs B8–B12D if the entity has carried out the concentration test and concluded that the acquired set of activities and assets is not a business.

OPTIONAL TEST TO IDENTIFY CONCENTRATION OF FAIR VALUE



ASB, ICAI

Optional test to identify concentration of fair value: general

- ✓ Focus is on gross assets and not on than net assets as the existence of debt or other liabilities is not relevant whether the acquisition is a business combination. (BC21W)
- ✓ Tangible asset attached to another tangible asset and which cannot be used without incurring significant cost, reduction in utility/ fair value to either asset (for example, land and buildings), constitute a single group [B7B(d)]
- ✓ Risk characteristics of assets used for identification of similar assets [B7 B(e)]
- ✓ Even if assets are combined for the concentration test, they may be recognised separately for financial reporting
- ✓ Examples added in IE of IFRS 3

AMENDMENTS TO IND AS 103



Assessing whether an acquired process is substantive

Appendix B
– Paragraph
12 B-
Assessment
when there
are no
outputs

If the integrated set of assets and activities do not have outputs (e.g. an early stage entity) on the acquisition date, the process is substantive if **both** the criteria are met:

(a) it is **critical** to the ability to develop or convert an acquired input or inputs into outputs; **and**
(b) the inputs acquired **include both an organised workforce that has the necessary skills**, knowledge, or experience to perform that process (or group of processes) and **other inputs** that the organised workforce could develop or convert into outputs. Those other inputs could include-

- (i) intellectual property that could be used to develop a good or service;
- (ii) other economic resources that could be developed to create outputs; or
- (iii) rights to obtain access to necessary materials or rights that enable the creation of future outputs.

Examples of the inputs include technology, in-process research and development projects, real estate and mineral interests.

AMENDMENTS TO IND AS 103



Assessing whether an acquired process is substantive

Appendix B
– Paragraph
12 C-
Assessment
when there
are outputs

If the integrated set of assets and activities have outputs on the acquisition date, the process is substantive if,

- (a) the process is **critical** to the ability to continue producing outputs, **and** the inputs acquired include **an organised workforce** with the necessary skills, knowledge, or experience to perform that process (or group of processes); **or**
- (b) significantly contributes to the ability to continue producing outputs and:
 - (i) is considered unique or scarce; or
 - (ii) cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

AMENDMENTS TO IND AS 103



Additional guidance

Appendix B – Paragraph 12 D

(a) Acquired contract is an input and not a substantive process. However, the contract may give access to an organised workforce (for e.g. a contract for outsourced property management or outsourced asset management). Therefore, it is necessary to assess whether an organised workforce accessed through such a contract performs a substantive process. Factors to be considered in making that assessment include the contract and its renewal terms.

(b) Difficulties in replacing the acquired organised workforce may indicate it performs a process that is critical to the ability to create outputs.

(c) A process or group of processes is not critical if, for example, it is ancillary or minor within the context of all the processes required to create outputs.

✓ Examples on assessment of substantive process have been added in IE of IFRS 3.



ASB, ICAI

Thank You

Contact for more details : asb@icai.in

Follow ICAI on Social Media - <http://www.icai.org/followus>



facebook

LinkedIn

twitter

YouTube