CONSIDERATIONS REGARDING IFRS 3 – BUSINESS COMBINATION

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Abstract: IFRS 3 describes and defines the accounting treatment for the Business Combination, so- called method "purchase method" that imposes the purchase price allocation to the assets and the liabilities identifiable by the society that makes the acquisitions object and the accounting of the operations that take place. Business combination means a fusion of distinct societies that are in one economic unity or derived from the fusion of one company with another one, either by obtaining the control over the net assets and over the administration of a company. This standard defines "business" as a whole system of tangible, intangible and financial assets involved in the development of an economic activity; if a company acquires a set of assets or even another entity, but it does not respect the definition of "business", the transaction cannot be accounted as a Business Combination.

Keywords: International Financial Reporting Standard 3(IFRS 3), business combination," purchase method", fair value

According to the international conceptual frame, a reporting entity is represented by „companies for which there are certain users defined that rely on the financial statements as an important source of financial information for them." Practically, a group of companies consists of bringing together separate units or businesses, in one reporting unit. The objective of the IFRS 3 standard is to obtain a superior quality and unification on an international level of the accounting of the groups companies' trying to focus in the same time on the analysis of the following main issues:

- the accounting method used by the groups of companies;
- the initial assessment of the identifiable assets.

Within the contemporary economy we can notice a phenomenon of development and flowering of many groups of societies that have sometimes one fixed purpose or other times, multiple and diverse objectives. The consequence of this phenomenon is that in the modern society, there is no activity sector of activity where there are not present multinational groups with a world or even globalization attempt. In order to accomplish the development strategies, these societies create a real network of multilateral relationships, that vary from the most simple to the more complex ones, from the most profound to the most superficial, their organizational chart being, most of the times, not intelligible or even to difficult to read by a beginner.The groups of societies omnipresent in all the sectors of activity have imposed themselves as an economic reality hard to neglect, although from a juridical point of view they are not considered to be a juridical reality. The entity groups manifest as an economic entity formed by a group of societies, each having its own juridical personality, brought together by different connections, in virtue of which one of them holds the unity of the decision and has an influence or a control over the others, determining them; so to say the decision unity of the determination society can manifest only if there is a relation of dependency of the other societies towards this one. So this difference can be: a financial difference- as a consequence of the majority of the voting rights in the General Assembly, the majority obtained directly by owning more than 50% of the voting rights, or indirectly through one or more societies having the right to control over another one; the directorial dependency of having the majority of the persons in the management level; the contractual dependency- as a consequence, either of renting together with a society an exclusivity contract or the designation of the administrators, or as a consequence of some statutory clauses; the economic dependency – resulted from the detaining of a group of the monopole of the activity.

The specific forms of the group of companies are:

- *the holding* – society that either has as jointures the majority of the assets or of the social parts of some or more societies; either is controlling the composition of the administration council of other societies;
- *the trust*- is a legislative creation of the English and American Law and designates an independent patrimony affected to one interest. The number of founders and of the beneficiaries of the trust is unlimited. According to the existing regulations, the trust can be used in various domains, but especially for the organization of the interests and of the groups in already made collectivities. As far as the connection between the trust and the group of societies if concerned, on one hand, the group of societies is not formed always for a monopoly interest, and on the other hand the idea of monopoly is opposed to the free and loyal competition encouraged and protected by the legislation and the contemporary doctrine;
- *the industry group* – is a concept introduced by the European economists and legal advisers, which, unlike the trust, which is founded on the idea of monopoly, if based on the idea of productivity. The industrial groups have been created for the purpose of reaching the maximum productivity, with the purpose of stimulating the competitors, opposed to the trust;
- *the concern*- is a variant of the industrial group, being regulated since 1973, being also completed with a part that regulates the subordinated societies and define the concern as being one of the group of societies quoted grouped under the unique direction of a dominant society. The society subordinated is the society that is juridical independent, found in subordination to another dominant company that can exert a direct or indirect influence. The difference from the group of societies lies in the nature of the domination relation that can appear and from a contract existing between the two companies, that has clauses in this sense, by which the dominant society is authorized to give directives to the dominant society and to make the group interest manifest;
- *the group of economic interests*- is a notion of French origin, but which has been adopted by all the community countries. The idea on which the constitution of these groups lies is that to allow the members to develop common actions and to face competition, respecting the independence of each of them;
- *the joint ventures group* – is one of the oldest forms of groups and it is based on a contract of association of the societies. It has no juridical personality; but it is a reality in fact. This type of group is made on the free consent expressed voluntarily, in a written interest, the purpose of the group being to obtain and share benefits. In order to reflect the nature of the control, it is necessary to calculate the percentage of control held by the dominant society, taking into account the dependency connection between the dominant society and the rest of the societies; that is the voting rights detained. This connection of power must not be mistaken for the financial dependency power, which results from the detaining of a part of the equity ownership of the 12501250society, dependency which is measured with the help of another instrument named interest percentage.

The control percentage - is calculated by summing up all the voting rights held directly or indirectly through a society placed under the exclusive control of the dominant society.

The interest percentage - taking into account the practical existence of different types of actions, we can found out that between owning a fraction of the capital and the rights that are attached there might exist a gap. While obtaining a right to vote reflects the exertion of a power, holding a share as a part of an equity ownership reflects the financial implication of a society in the high society. The financial implication is measured with the help of the interest percentage, calculated by multiplying the parties held directly with those detained indirectly in the equity of one society, gathered on each branch. The utility of the interest percentage results from the fact that it allows the calculation of the rights of the society that belong to the whole to assemble, for the distribution of the equity ownership and of the result between the interests of the group and the interests of those outside the group.

A lot of economic operations take place within the context of a group structure that includes companies and entities that interrelate one with the other. The general frame IFRS for the approach of the equity ownership and of other investments in custody accounts are presented as follows:

Accounting approach of various acquisitions of custody account

Joint percentages according to IFRS 3 are as follows:

Under 20% - they are evaluated at their just value according to IAS 39;

- between 20-50% they are evaluated by the method of putting in equivalence according to IAS 28;
- over 50% - consolidation and business combination according to IAS 27;
- Others – joint association's business combinations evaluated according to IFRS 3.

The aspects taken into account in the IFRS 3 standard refer to:

- accounting treatment at the date of the acquisition;
- for all the business combination, it is accounted by applying the method of the acquisition;
- the initial assessment of the acquired assets and of the liabilities, including the contingent ones, assumed, identifiable in a company at the just value;
- recognition of the liabilities for the closure or reduction of activities;
- the accounting for the goodwill and of the intangible assets acquired in a business combination;

In the same time, this standard does not apply in the following cases:

- the business combination that imply entities that are under common control;
- business combination that imply two or more mutual entities;
- business combination that have been gathered in order to build an entity that reports just in one contract without obtaining an interest in jointure;

The accounting treatment applied by the IFRS 3 standard stipulates the identification of the acquiring part in any business combination that is under its incidence; the acquiring part is that part that obtains the control over the other entities within the business combination. The acquisition must be accounted using the acquisition method. Since the date of the acquisition the acquiring part must integrate into the profit and loss account the results of the acquired entity's activities and to recognize the assets in the balance sheet, the liabilities and the contingent identifiable liabilities of the acquired entity as well as the goodwill generated by the acquisitions. Applying this method involves taking the following steps: identification of the acquiring part; evaluation of the cost of acquisition; allocation at the date of acquisition of the combination cost on acquired assets and liabilities, including assumed contingents.The acquisition cost supported by the acquiring part represents the sum of the just value of the transferred assets, of the liabilities taken and of the instruments of shareholders' equity issued by the acquiring part, in exchange of the control over the entity acquired, at the date of the transaction. This includes the costs that can be direct, but not the professional fees or the emission costs of the shareholders' equity investments or liabilities used for the payment of the obligations.

The assets, the liabilities and the identifiable contingent liabilities that have been acquired must be the ones belonging to the acquired entity and that existed at the date of the acquisition. The intangible assets must be recognized as acquired assets in the case which they correspond to the definition of the intangible asset according to the IAS 38. In the case which, for the accounting of a business combination, the values can be determined only provisory, the acquiring part must account the combination using the respective provisory values. The acquiring part must recognize the adjustments of the provisory values as a result of finalization of the initial accounting in term of one year from the date of the acquisition. The assets, the liabilities and the identifiable contingent liabilities that have been acquired must be evaluated at the just value of the assets and identifiable liabilities are described as goodwill and are recognized as asset. The goodwill is annually tested through depreciation and it is not amortized.

The positive difference between the interest of the acquiring part from the just value of the assets and the acquired identifiable liabilities and the cost of acquisition represents an earning and it is recognized in the profit and loss account. This difference is not recognized in the balance sheet as negative goodwill. However, before recognizing any earning, the acquiring part must reassess the cost of the acquisition and the just values allocated to the assets, the identifiable contingent liabilities belonging to the acquired entity. By acquiring significant package of shares we can notice the fact that a society can acquire control over the other societies by forming groups of societies, but also between independent entities there could be developed operations of gathering for the formation of groups of societies.

Within the contemporary economy we can notice a phenomenon of development and flowering of many groups of societies that have sometimes one fixed purpose or other times, multiple and diverse objectives. The consequence of this phenomenon is that in the modern society, there is no activity sector of activity where there are not present multinational groups with a world or even globalization attempt. In order to accomplish the development strategies, these societies create a real network of multilateral relationships, that vary from the most simple to the more complex ones, from the most profound to the most superficial, their organizational chart being, most of the times, not intelligible or even to difficult to read by a beginner. The groups of societies omnipresent in all the sectors of activity have imposed themselves as an economic reality hard to neglect, although from a juridical point of view they are not considered to be a juridical reality. The entity groups manifest as an economic entity formed by a group of societies, each having its own juridical personality, brought together by different connections, in virtue of which one of them holds the unity of the decision and has an influence or a control over the others, determining them; so to say the decision unity of the determination society can manifest only if there is a relation of dependency of the other societies towards this one.

So this difference can be: a financial difference- as a consequence of the majority of the voting rights in the General Assembly, the majority obtained directly by owning more than 50% of the voting rights, or indirectly through one or more societies having the right to control over another one; the directorial dependency of having the majority of the persons in the management level; the contractual dependency- as a consequence, either of renting together with a society an exclusivity contract or the designation of the administrators, or as a consequence of some statutory clauses; the economic dependency – resulted from the detaining of a group of the monopole of the activity.

Conclusions:

If an entity wants to obtain the control over a net asset (Net asset = Total assets - liabilities) belonging to another entity, there are a series of modalities through which we can accomplish this control from the juridical point of view, fusion, consolidation, offer. Through an acquisition of net assets, part of the assets and liabilities of an entity are directly acquisitioned by another entity or through the acquisition of participation to the equity ownership, an entity mother acquires the control over 50 % of the ordinary shares with right to vote of another entity. Both entities can continue exist as separate juridical entities, each one producing an independent set of financial statements, or they can fusion in a certain way. The interest percentage is different from the control percentage – the first represents the part that goes to the society mother, directly and indirectly from the equity ownership of the controlled society, obtaining them through the multiplication of the interest percentages held directly or indirectly on each branch that finally are gathered. The interest percentage lowers as there are more societies in the chain of participation. The just value of the long term debt taken from a combination of companies is the value up dated of the equity ownership and the interest on the period left until the settling day, the updating being made at the current rate of interest existing on the market. The acquisition cost of the long term acquisition is compared to the just value of the assets, the liabilities, the contingent liabilities of the entity acquired, and the positive difference is recognized as goodwill. If the just value of market of the assets, of the liabilities and contingent liabilities of the entity acquired is bigger than the cost of acquisition, IFRS 3 foresees that the positive difference should be reported as earning.

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