

# What is the Acquisition Method?

## Worksheet

Under the acquisition method, goodwill equals the consideration transferred plus any non-controlling interest and the fair value of any previously held equity interest, minus the fair value of the net identifiable assets acquired.

## Questions

- Under IFRS 3, which method is used to account for business combinations?
  - Pooling of interests
  - Acquisition method
  - Equity method
  - Proportionate consolidation
- A company acquires 100% of a subsidiary for \$900,000; the fair value of net identifiable assets is \$700,000. What is goodwill?
  - \$200,000
  - \$700,000
  - \$900,000
  - \$1,600,000
- A negative result in the goodwill formula indicates:
  - An impairment loss
  - A bargain purchase gain
  - Negative NCI
  - A measurement error
- At what date must the acquirer measure identifiable assets and liabilities?
  - Reporting date
  - Contract signing date
  - Acquisition date
  - Fiscal year-end
- Company A acquires 100% of Company B. Consideration transferred is \$800,000, there is no NCI, and the fair value of B's net identifiable assets is \$650,000. What is goodwill?
- Company X acquires 80% of Company Y for \$560,000 cash. The 20% NCI is measured at a fair value of \$140,000. Y's net identifiable assets have a fair value of \$600,000.
- Company M acquires 100% of Company N for \$300,000. N's net identifiable assets have a fair value of \$340,000.
- Define: What is the acquisition method?
- Define: How is goodwill calculated?
- Define: What if the result is negative?

## Answer Key

1. B) Acquisition method - IFRS 3 requires the acquisition method for all business combinations within its scope.
2. A)  $\$200,000 - 900,000 - 700,000 = \$200,000$  (no NCI, 100% owned).
3. B) A bargain purchase gain - A negative result means net assets exceed consideration paid, giving a bargain purchase gain.
4. C) Acquisition date - All identifiable assets and liabilities are measured at the acquisition date, when control passes.
5. Goodwill = P + NCI FV(net assets) Goodwill =  $800,000 + 0 - 650,000 = \$150,000$
6. Goodwill =  $560,000 + 140,000 - 600,000 = \$100,000$
7. Goodwill =  $300,000 + 0 - 340,000 = \$40,000$  A negative result means a bargain purchase gain of \$40,000 is recognized directly in profit or loss.
8. The IFRS 3 approach for business combinations: identify the acquirer, determine the acquisition date, measure identifiable assets/liabilities/NCI at fair value, and recognize goodwill.
9. Goodwill = Consideration transferred + NCI + FV of any previously held interest - FV of net identifiable assets acquired.
10. It's a bargain purchase; after remeasuring, the gain is recognized immediately in profit or loss.

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