

ACCOUNTING TREATMENT OF SEPARATE TRANSACTIONS IN BUSINESS COMBINATIONS HARMONIZING PROCESS OF INTERNATIONAL (IFRS) AND AMERICAN (FAS) ACCOUNTING REGULATIONS

*Elizabeth Brown, School of Environmental Science, University of California, Santa
Barbara*

&

John Doe, Department of Sociology, University of California, Los Angeles

Abstract

The changes introduced in the American FAS 141(R) (2007) and in IFRS 3 (R) (2008) , in order to harmonize the accounting aspects of the operations referring to the combination of businesses , have revealed the existence of certain transactions that are not part of the transaction itself combination and which are called separate transactions , whose delimitation of the business combination is dispersed in both standards, which is why it is sometimes not very clarifying. Thus, this work aims to facilitate the reader's understanding of its accounting treatment by addressing the problem of identifying the transactions that occur, and those that do not, as a consequence of the business combination , the treatment accounting of this dilemma and its effect on the recognition and valuation of goodwill (goodwill account).

Keywords : business combinations , separate transactions , FAS 141(R), IFRS 3 (R).

Introduction

Due to the harmonization of the International Accounting Standards (IFRS) and the American Standards (FAS), companies are subject to important changes in

accounting regulations, which will occur with some regularity, given the harmonizing commitment of two accounting organizations (IASB and FASB). These changes imply adaptations to the national accounting regulations of those countries that have been incorporating international accounting regulations into their respective legislation. ¹

In this context, the changes introduced in the American Financial Accounting Standard 141 [FAS 141(R), 2007] ² and in the International Financial Reporting Standard

International accounting standards are mandatory: a) for all member countries of the European Union in the preparation of the consolidated accounts of groups listed on any of their stock markets (Regulation 1606/2002 of the European Parliament) and b) for domestic listed companies in more than 40 countries around the world. Furthermore, the use of international regulations is also permitted in other countries. Finally, in those countries where the The use of international regulations is not permitted , work is being done to achieve harmonization between its own regulations and those . For these purposes, with regard to business combinations, in Mexico NIF B-7 Business Acquisitions (2009, CINIF) is applied, the content of which, in general terms, is homogenized with international regulations.

² Standard that has been incorporated in section 805 of the FASB Accounting Standards Codification .

dard 3 [IFRS 3 (R) , 2008], in order to harmonize the accounting aspects of operations referring to business *combinations* , have revealed the existence of certain transactions that are not part of the transaction itself . combination and which are called separate *transactions* .

The delimitation of these transactions separate from the business combination is dispersed in both standards, sometimes resulting in little clarification. That is why, given the significance and particularity of these operations, this work aims to facilitate the reader's understanding of their accounting treatment in order to contribute to their understanding.

Therefore, the problem of identifying the transactions that occur, and those that do not, as a consequence of the business combination , the accounting treatment of this dilemma and its effect on the recognition and valuation of Goodwill constitute the objective of this work.

Separate transaction . Conceptual delimitation

Transactions separate from business combinations have been defined in IFRS 3(R) [52] and FAS 141(R) [58] as those *entered into by or on behalf of the acquirer or that primarily benefit the acquirer or the entity. combined, rather than to the acquired (or its previous owners) before the combination* . As such, they should not be considered as part of the consideration given for the net assets acquired and liabilities assumed, but rather as separate transactions from said combination.

Thus, these are certain transactions that, generally, respond to two types of relationships between the acquirer and the acquired: a) relationships or agreements prior to the negotiations developed to proceed with the business combination and b) agreements adopted, between both. , during the negotiations, but which are separated from the business combination . Given its characteristics, and According to the applicable regulations, these transactions must be recorded separately from the business combination, since they do not respond to an exchange that has taken place with the objective of controlling the acquired company.

Table 1

Typology of separate transactions

Type of relationships	Categories according to international and American regulations	
Relationships or agreements prior to negotiations	Pre-existing relationships between acquirer and acquiree	Contractual nature
		Non- contractual nature
		Reacquired rights
Agreements adopted during negotiations	Remuneration to employees or previous owners of the acquired company for future services	Replacement of remuneration system agreements based on equity instruments for workers or previous owners of the acquired company
		Contingent payments to workers or former owners of the acquired company
	Refund to the acquired	

	<p>or its former owners of the expenses assumed and paid relating to the acquisition and attributable to the acquirer</p>	
--	---	--

These types of transactions may give rise to an overvaluation of *goodwill* , which will affect the comparability of the financial statements and the representation of the true image of the business combination itself. This will happen when the consideration paid for the acquisition is overvalued.

In accordance with this regulatory context, there is the dilemma of clarifying which economic events really constitute separate transactions and which do not; Therefore, which must be subject to the specific accounting treatment granted by the international (IASB) and American (FASB) accounting regulations, being excluded from the acquisition method . For these purposes, and in accordance with these harmonized regulations, some guidelines are set out on the aspects to be considered to identify and evaluate which economic events are part, or not, of a combination. of business [IFRS 3(R). B50; FAS 141(R). A77].

a) Reason or reason for the transaction (reasons for the transaction): Understanding the reason or reason why the *transaction* or *agreement* has been formalized can

provide clues as to whether or not it forms part of the consideration transferred in the business combination. In this way , if a transaction fundamentally serves the benefit of the acquirer or the combined entity and not the benefit of the acquired or its previous owners before the combination, this will be understood as a separate transaction from the business combination [IFRS 3(R). B50; FAS 141(R). A77] .

A practical application of this conceptual perspective is the treatment that the aforementioned regulations confer to the expenses related to the acquisition that are borne by the acquirer by implying a payment for the benefit of the acquirer and not of the acquired or its partners or owners. On the contrary , the costs that the acquirer will bear on behalf of the acquired party, despite not being direct payments to the seller, primarily benefit the previous owners, considered as another part of the consideration delivered in the business combination .

b) Who initiated the transaction : This aspect is presented by international and American accounting regulations as one more element to judge whether an event is part, or not, of the transaction. business combination. Indeed, a transaction or event initiated by the acquirer usually responds to the intention to obtain future benefits for itself or for the combined entity and, consequently, must be treated as a separate transaction.

On the contrary, the regulations cited show that this is less likely to happen if the person who initiates the transaction is the acquiree or its previous owners [IFRS 3(R). B50; FAS 141(R). A77], in which case there will be more probabilities that the operation will be part of the business combination. Therefore, and under this

perspective , the transactions initiated by the acquirer would have to be treated as separate transactions.

c) *The timing of the transaction* : *The timing of the transaction* also reports data on whether or not it is part of the business combination . _ _ _ _ _

Illustratively , you can _ clarify that if the transaction takes place during the process of negotiating the conditions of the business combination , it is very likely that it will provide benefits to the acquirer or the combined entity and not to the acquired entity [IFRS 3(R). B50; FAS 141(R). A77]. For the purposes of the business combination , this type of operations will be considered as separate transactions.

In reality, there are many indications that contribute to forming an opinion on whether or not a transaction should be treated separately from the business combination . However, the regulations themselves refer to some particular cases whose accounting treatment is described in the subsequent paragraphs.

Accounting treatment of separate transactions

Both international accounting regulations [IFRS 3 (R). 52] and the American one [FAS 141 (R).A79] explicitly include the following references to separate transactions:

- a) Those that seek to cancel pre-existing relationships between the acquirer and the acquiree.
- b) Those that remunerate employees or the previous owners of the acquired company for future services.
- c) Those whose purpose is to reimburse, to the acquired party or its former owners, the expenses assumed and payments made, relating to the acquisition and attributable to the acquirer.

The accounting treatment of the particularities of this type of separate transactions in business combinations is the subject of detailed development below .

Separate transactions intended to cancel pre-existing relationships between acquirer and acquiree

Between the companies that participate in a business combination there may be previous relationships on which it would be necessary to clarify and identify whether or not they constitute separate transactions to grant them a particular accounting treatment . In this case, two types of differentiated but simultaneous relationships would overlap: one of them would correspond to the separate transaction, a consequence of the previous relationship between the acquirer and the acquiree; the other, to the business combination itself. Under these circumstances, the effective consideration may differ from the apparent, since a part of it would be related to the pre-existing relationship and not to the business combination ; Failure to distinguish between both concepts would mean an overestimation of goodwill (goodwill) and , with it , the equity of the acquiring company.

For the purposes of applying the acquisition method to business combinations, only the part actually corresponding to this operation will form part of the consideration. Regarding the pre-existing relationship, the approaches of IFRS 3(R) [B51] and FAS 141(R) [A78] entail the need for a prior analysis of the contractual nature (for example , purchase and sale of goods or provision of services, leases, loans) or not thereof (for example, litigation or legal action).

In general terms, these types of relationships must be liquidated at the time of the business combination, with the acquirer recognizing a benefit or loss whose amount will depend on the nature of that relationship (contractual or non-contractual). However , and in either of these two cases, the expenses and income to be recognized will have as a counterpart the consideration transferred, reducing the cost of the business combination . for the purposes of calculating goodwill (goodwill account) .

With respect to *pre-existing non-contractual relationships* , international and American accounting standards establish, in particular, that the acquirer must recognize a profit or loss for the fair value attributed. to the cancellation of this relationship. In this way, if the acquirer has recognized assets or liabilities related to the contract, the benefit or loss will be calculated by the difference between the book value and the fair liquidation value of the existing relationship.

For its part, in the case of *pre-existing contractual relationships (pre-existing contractual relationship)* , the gain or loss will be recognized for the lower of the following two amounts:

- a) Amount by which the contract is favorable or unfavorable ³ for the acquirer in relation to market conditions (ICC) .
- b) Amount of any settlement clause established in the contract that can be enforced by the party for whom the contract is unfavorable (ICL).

An unfavorable contract is unfavorable in relation to current market conditions. It is not necessarily an onerous contract in which the unavoidable costs of complying with the obligations established in the contract exceed the economic benefits expected to be

received from it [IFRS 3(R) . B51; FAS 141(R). A78].

Then, when the second amount is less than the first of those indicated ($ICL < ICC$), the difference will form part of the cost of the business combination.

Determinación del costo de la combinación de negocios derivado de la cancelación de relaciones preexistentes de carácter contractual

$$CC_{RP} = ICC - ICL$$

En el caso en que $ICL < ICC$, se calculará la siguiente diferencia:

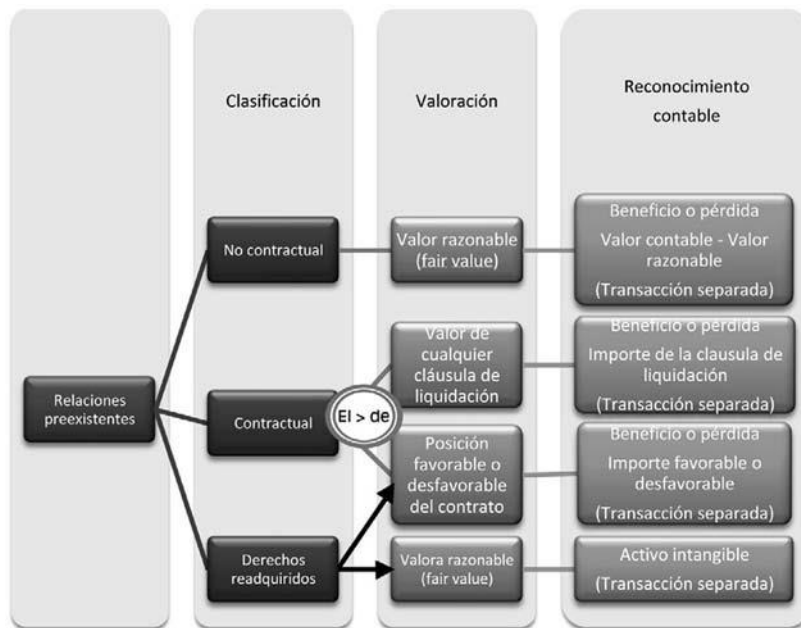
Donde:

A particular case of pre-existing relationships is the so-called reacquired rights *that* arise in those circumstances in which , as a consequence of pre -existing relationships , the business combination gives rise to the acquisition of a right previously assigned by the acquirer to the acquired for the use of one or more assets, recognized or not , of the acquirer. Examples of rights reacquired the use of a trademark or patent, contracts on product distribution, fixed price supply contracts, etc.

This implies the following accounting process: the acquirer will recognize the reacquired right as an intangible asset, separately from the goodwill (goodwill account), based on the contractual period remaining until its completion, regardless of whether a third party considers, to determination of fair value, possible contractual renewals.

Figure 1

Accounting treatment of pre-existing relationships



However , if the contract includes terms that are favorable or unfavorable compared to the market prices of similar or identical transactions , the acquirer must recognize a profit or loss on the effective settlement of the contract, according to the criteria previously applied for the relationships pre-existing of a contractual nature.

With respect to these pre-existing relationships between the acquirer and the acquiree, there are issues that American and international regulations have not regulated , such as, for example, what to do with the credits and debits recognized by the acquirer and acquiree due to the pre-existing relationships, what procedure to follow if the acquirer or the acquired party has recognized impairments in value in relation to the debits or credits arising from the previous relationship , etc. In the first

case, Since the cancellation of said relationships occurs, the reciprocal credits and debits will be cancelled ; In the second case, when there are deteriorations of recognized value, it would be appropriate to reverse the deterioration by recording it as income in the profit and loss account of the affected company.

Both international and American accounting regulations [IFRS 3 (R); FAS 141 (R)] distinguish, in turn, two different situations within this category:

- Replacement of remuneration system agreements based on equity instruments for workers or previous owners of the acquired company .
- Contingent payments to workers or former owners of the company acquired.

Both IFRS 3 (R) [B56 -B62] and FAS 141 (R) [43-46] standardize, within the framework of separate business combination transactions , the substitution of payment commitments based on instruments of assets of the company acquired with its employees by those of the acquirer.

However , and before analyzing the content of the previous regulations, it has been considered necessary to collect other references in order to define the concepts and characteristics necessary to understand the current harmonizing text of the business combination .

IASB IFRS 2, “ Share -based payments,”⁴ and FASB FAS 123 (R), *Share -based payment* , define the accounting treatment of compensation based on equity instruments to personnel as those that, in exchange for receive the services provided by the workers, they will be settled by the company with equity instruments—

shares or *stock* options —or with an amount that is based on the value of equity instruments. net — stock appreciation rights .

⁴ Approved by the IASB in February 2004.

In any case, the company must recognize, on the one hand, the services received by the workers, as an expense, at the time of obtaining and, on the other, the corresponding “net” increase, if the transaction is settled . with equity instruments (*equity-settled share-based payment*), or the corresponding “liability”, if the transaction was settled for an amount that was based on the value of the equity instruments (*cash-settled share-based payments*).

When valuing these transactions , the fair value will be considered . _ _ _ _ _
However , the classification carried out based on the settlement must also be taken into account , since if it is planned to be carried out in equity instruments, the fair value of the equity instruments will be used, while if it is carried out in cash , the value will be used . reasonable of the obligation to pay in cash.

Said fair value criterion will be easy to apply to transactions settled through the delivery of shares or a cash amount referenced to their value for those companies that are listed on the stock exchange . However , those that are not listed on active organized securities markets must use some method of stock valuation. The case of the delivery of stock options is different , because if there is no an active organized market , a very common situation , a valuation method or model generally accepted in financial markets must be applied . However , neither IFRS 2 nor FAS 123(R) make any reference to the specific method to be used .

However , these harmonized standards at least describe the factors that, at a minimum, should be considered when estimating the fair value of stock options; These factors are the following: exercise price , life of the option, current share price , expected volatility , expected dividends and risk-free interest rate [IFRS 2.B6; FAS 123 (R).A18].

The valuation date of compensation based on equity instruments to personnel will be the *grant* date, which is defined by international regulations as “the date on which the entity and a third party reach a

There is a third possibility, which is that you can choose whether the settlement is in cash or with equity instruments . In these cases, the accounting recognition included in the regulations, both American and international, will be different depending on whether the aforementioned choice depends on the granting company or the worker.

share-based payment agreement, which occurs when the entity and the other party reach a shared understanding about the terms and conditions of the agreement” [IFRS 2. Appendix A]. The previous definition is similar to that included in American regulations [FAS 123 (R). Appendix E].

Finally, the total expense to be recognized for the granting of this type of remuneration systems will be calculated by multiplying the fair value obtained by the number of equity instruments to be delivered or the number of instruments on which the cash remuneration will be calculated . Said expense will be recognized

immediately, unless a certain irrevocability period (*vesting period*) ⁶ or service period (*service period*) is established, in which case the recognition will occur throughout the period in which the provision of services .

Both IFRS 3 (R) and FAS 141 (R) normalize this assumption of substitution of payment commitments based on equity instruments. For the acquirer, the purpose of this type of transaction is to ensure the permanence of workers in the combined entity after the acquisition, maintaining or providing more incentives to them.

For its part, and since the regulations do not delimit these aspects, in our opinion the remuneration systems assumed by the acquiring company may contain the same terms as the original systems or, on the contrary, it may change those previously established depending on the For example, your compensation strategy or any other factor .

Diferentes periodos de irrevocabilidad en la sustitución de acuerdos de remuneración basados en instrumentos de patrimonio

Cuando la sociedad adquirente sustituye los sistemas de remuneración basados en instrumentos de patrimonio establecidos por la adquirida, intervienen diferentes conceptos en relación con los periodos de irrevocabilidad. Así, se pueden distinguir los siguientes: periodo inicial de irrevocabilidad, periodo de irrevocabilidad completado y periodo de irrevocabilidad nuevo.

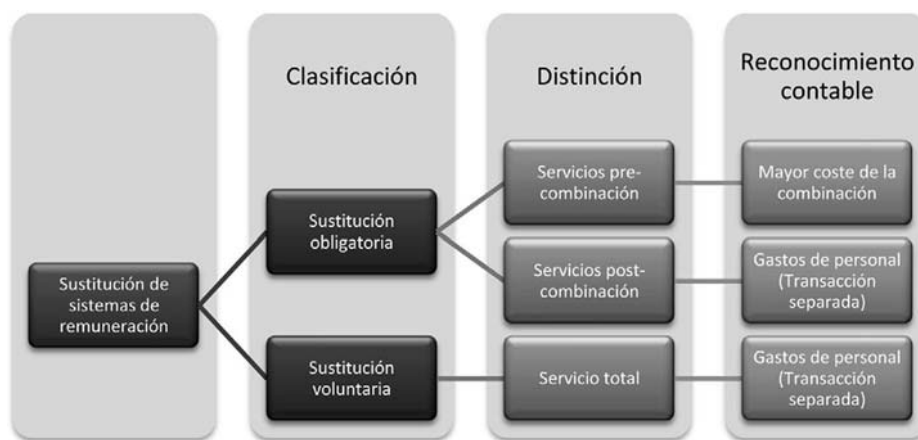
El periodo inicial de irrevocabilidad (PI) abarca desde la fecha de concesión hasta la de finalización del plan retributivo establecido inicialmente por la sociedad adquirida.

El periodo de irrevocabilidad completado (PIC) comprende desde la fecha inicial de concesión del plan retributivo por parte de la sociedad adquirida hasta la fecha en que produce la combinación de negocios.

Within the replacement of remuneration agreements we must distinguish two situations: mandatory replacement and voluntary replacement.

Figure 2

Accounting treatment of the replacement of remuneration systems based on equity instruments



In the first case, of mandatory replacement, both IFRS 3 (R) [B56] and FAS 141 (R) [43] indicate that:

[...] the acquirer is obligated to replace the acquiree's agreements if the acquirer or its employees have the ability to enforce the replacement. For example , for the purposes of applying this requirement, the acquirer is required to replace the acquiree 's agreements if the replacement is required by:

- a) The conditions of the acquisition agreement;
- b) The conditions of the agreements of the acquired company; either
- c) Applicable laws or regulations .

In these cases, the amount of the replacement agreements , which is part of the cost of the business combination, will be equivalent to the part of the agreement maintained by the acquired company attributable to services prior to the acquisition date . This amount will be determined by applying to the fair value of the remuneration system on the acquisition date the percentage resulting from comparing the irrevocability period completed on said date, and the greater between the initial period and the new irrevocability period resulting from the agreements reached [FAS 141 (R).A93; IFRS 3 (R).B58].

Importe atribuible a la combinación de negocios por la sustitución obligatoria de acuerdos de remuneración

El importe que formará parte del costo de la combinación de negocios se puede calcular de la siguiente forma:

$$CC_{SOR} = VR_B \times \left[\frac{PIC}{PI} \right]$$

Si el periodo inicial de irrevocabilidad es superior al periodo de irrevocabilidad nuevo, es decir, $PI > PIN$, en este caso se utilizará PI :

$$CC_{SOR} = VR_B \times \left[\frac{PIC}{PIN} \right]$$

Si el periodo de irrevocabilidad nuevo es superior al periodo inicial de irrevocabilidad, es decir, $PIN > PI$, en este caso se empleará PIN :

Donde:

However, both international accounting standards [IFRS 3 (R).B59] and American standards [FAS 141(R).A94] establish that the excess of the fair value of the remuneration system for the acquirer over the previously calculated cost will not form part the cost of the business combination ; This excess will be recognized as personnel expense by the acquiring company.

Determinación del importe que no es atribuible a la combinación de negocios por la sustitución obligatoria de acuerdos de remuneración

$$GP_{SOR} = VR_A - CC_{SOR}$$

El cálculo se puede realizar de la siguiente forma:

Donde:

In accordance with American [FAS 123 (R).39-42] and international [IFRS 2. 14-15] accounting regulations, the recognition of the amount obtained as personnel expense will depend on whether workers are required to have an additional period of services or not:

- 1) The new agreements require the provision of additional services to employees. In this case, the recognition of personnel expenses will be carried out as the services are provided by the workers in the established period of time .
- 2) The new agreements do not require the provision of additional services by employees. In this case, the personnel expense will be recognized immediately.

In the second case, of voluntary **replacement of** the agreements that expire due to the business combination , the entire valuation on the acquisition date of the new incentives will not form part of the transferred consideration, being recognized as personnel expenses [FAS 141(R).44; IFRS 3 (R). B56].

Importe que no es atribuible a la combinación de negocios por la sustitución voluntaria de acuerdos de remuneración

$GP_{nir} = VR_{nir}$
En estos casos, la totalidad del valor razonable del sistema de remuneración no forma parte de la combinación de negocios, por tanto:

In short, in the case of **mandatory replacement** of the remuneration agreements , only the part corresponding to the pre-combination services will be taken into account for the calculation of the cost of the business combination , while in the case of **voluntary replacement** it will not be taken into account . will consider any amount .

Both cases represent a lower cost than the one that would be obtained if the previous regulations were applied (in which no explicit reference was made to these specific situations), thus avoiding overestimating the goodwill for these remuneration systems when considering the regulations that these transactions They do not take place with the objective of controlling the acquired company.

If the agreements reached in the business combination grant payments to employees or shareholders of the acquired company for future services , it must be determined whether they form part of the cost of the business combination or , on the contrary ,

they should be considered as separate transactions. International regulations notes that remuneration for future services that have to be provided to the acquirer by previous owners or other employees of the acquiree is not, in essence, consideration for the acquired business [IFRS3(R).FC364].

Both international accounting regulations [IFRS 3(R). B55] like the American one [FAS 141(R). A87] include a series of factors that must be considered to determine whether or not those contingent payments ⁷ should be considered as separate transactions . These factors are the following:

According to international [IFRS 3(R)] and American [FAS 141 (R)] accounting regulations , we understand contingent payments as the obligation of the acquirer to transfer assets to employees or former owners of the acquired company if certain conditions are met. or future events.

Continuity of employment : when contingent payments are automatically extinguished if the employment relationship ends, we would be dealing with remuneration granted for services subsequent to the business combination and, therefore, they should be considered as separate transactions. On the contrary, when the aforementioned contingent payments are not affected by the termination of the employment relationship, we would be faced with an additional consideration instead of remuneration (higher cost of the business combination) .

Duration of continued employment: The fact that the required period of employment is equal to or longer than the contingent payment period may indicate that the

payment constitutes remuneration and should therefore be treated as a separate transaction .

Level of remuneration : situations in which the employee's remuneration, excluding contingent payments , is at a reasonable level relative to that of other key employees of the combined entity may indicate that such contingent payments are additional consideration in instead of remuneration , which should increase the cost of the business combination.

Additional payments to employees : the fact that the shareholders of the acquired _
—who do not become employees of the combined entity — receive smaller contingent payments —calculated per share — than those who do become employees may indicate that the largest amount of the contingent payments to the latter is remuneration and, therefore, Therefore, it should not be considered as a higher cost of the business combination.

Number of shares owned: if the shareholders of the acquired company, who owned practically all of its shares, remain as key employees, it could indicate that it is a profit-sharing agreement with the objective of remunerating the services provided with subsequent to the business combination (separate transaction).

However, if the shareholders of the acquiree who remain key employees owned only a small number of shares in the acquiree and they all receive the same amount of contingent consideration per share it could be an indication that the contingent payments are additional consideration (higher cost of the business combination).

Connection to valuation: If the initial consideration transferred on the acquisition date is based on the lower end of a scale established for the valuation of the acquiree and the contingent formula responds to that valuation approach, this could be an indication that Contingent payments are additional consideration (higher cost of the business combination).

However, if the contingent payment formula is consistent with previous profit-sharing agreements it could be an indication that the essence of the agreement is to provide remuneration (separate transaction).

Formula for calculating consideration : The formula used to determine the contingent payment can be useful in evaluating the substance of the agreement. Thus, if the contingent payment is calculated taking into account a multiple of the profits corresponding to more than one year, it may be an indication that the obligation is a contingent consideration in the business combination and that the purpose of the formula is establish or verify the fair value of the acquired company (higher cost of the business combination).

On the contrary, a contingent payment equivalent to a specific percentage of profits could indicate that the obligation to the employees consists of a profit-sharing agreement to remunerate them for the services provided (separate transaction).

Other agreements and issues: The terms of other agreements with shareholders of the acquiree (for example, non- compete agreements , executory agreements , consulting agreements and property leases) may indicate that contingent payments

are attributable to elements other than the consideration for the acquired one (separate transaction).

Both international accounting regulations [IFRS 3(R). B55] like the American one [FAS 141(R). A87], in relation to this last case, they point out the following:

the acquirer can carry out a lease of a property with a major shareholder who is selling . If the payments specified in the lease are significantly below market , some or all of the lessor's (the selling shareholder's) payments required by a separate contingent payment agreement may be, in substance, payments for the use of the leased property . which the acquirer should recognize separately in its post - acquisition financial statements . Conversely , if the lease agreement specifies payments that are consistent with market conditions for the leased property, the contingent payment agreement to the selling shareholder may be contingent consideration in the business combination.

Acuerdos de pagos contingentes a empleados o accionistas de la entidad vendedora

Se considerará que debe tratarse de una transacción separada en alguna de las siguientes circunstancias:

- Que los pagos contingentes se extingan automáticamente si termina la relación laboral.
- Que el periodo de empleo exigido sea igual o superior al periodo de pago contingente.
- Que las remuneraciones de los empleados, excluyendo los pagos contingentes, excedan el nivel razonable en relación con las remuneraciones de otros empleados clave.
- Que los accionistas de la adquirida, que pasen a ser empleados, reciban pagos de menor cuantía que los accionistas que sí pasen a serlo.
- Que los accionistas de la adquirida, que poseían la práctica totalidad de las acciones, permanezcan como empleados clave.
- Que el cálculo del pago contingente sea coherente con acuerdos previos de reparto de beneficios.
- Que el pago contingente sea equivalente a un porcentaje concreto de beneficios.

In the case of contingent payments to the workers or former owners of the acquired company, when any of the circumstances arise that suggest that they should be

treated as an amount separate from the cost of the combination, no amount will be considered , avoiding , therefore , that said contingent payments are included in capital gains.

Separate transaction that reimburses the acquiree or its former owners for expenses assumed and paid relating to the acquisition and attributable to the acquirer

The treatment of costs associated with the business combination, according to the new wording of international and American regulations [IFRS 3(R). 53; FAS 141(R). 59], has meant a fundamental change in orientation with regard to the accounting of business combinations. These costs include intermediation commissions, advisory fees, legal and accounting services, etc. , and whether for services provided by third parties or by internal personnel of the acquired company , they must be treated as expenses in the periods in which those that are incurred and receive the services. The change in treatment of these costs is justified by the IASB in the fact that generally they do not represent assets of the acquirer at the acquisition date because the benefits obtained are consumed to the extent that the services are received [IFRS 3 (R).FC366].

There is, however , an exception to the previous treatment regarding the costs of issuing debt or shares ⁸ used to carry out the business combination . The criteria set out in the particular regulations that apply to them will be applied to these costs . The costs of issuing _ debt will be capitalized and amortized (recognising them as part of the profit or loss for the year) over its duration [IFRS 9, paragraph 5.1.1] ⁹ when amortized cost is applied. ¹⁰ For their part, the costs related to the issuance of shares will reduce the amount received in the issuance.

The consideration of acquisition costs as the highest cost of the business combination was a procedure susceptible to the development of opportunistic behavior by the participants in a business combination, a circumstance that no longer exists with the new treatment because the possibility that the company can capitalize these expenses as part of the goodwill (goodwill account) is eliminated . To compensate for this circumstance, the The acquirer could agree with the acquiree that the latter bear the aforementioned costs, avoiding recognizing them as its own and, therefore, overvaluing the goodwill (goodwill account) [IFRS 3 (R). FC370]. For this reason , both international and American accounting regulations make express mention of transactions that reimburse the acquired company or its previous owners for expenses . _ related to the acquisition, and that actually correspond to the acquisition

Pending the incorporation or not of international accounting regulations in Mexico , NIF B-7 “Business Acquisitions” is currently applied , the content of which , in general terms , is homogenized with international regulations. However, in the case of the costs associated with the acquisition, it is established that such expenses “ such as advisory fees , market studies or issuance costs capital or debt, should not form part of the consideration” [NIF B-7.80] .

IFRS 9 “ Financial Instruments ” was approved by the IASB on October 28 , 2010 and partially replaces IAS 39 until the process of preparing and approving it, which has been planned in three phases, is completed. The guidance included in IFRS 9 on the classification and measurement of financial liabilities remains unchanged in relation to the classification criteria for financial liabilities currently contained in IAS 39. The revised version of the aforementioned standard has the same effective



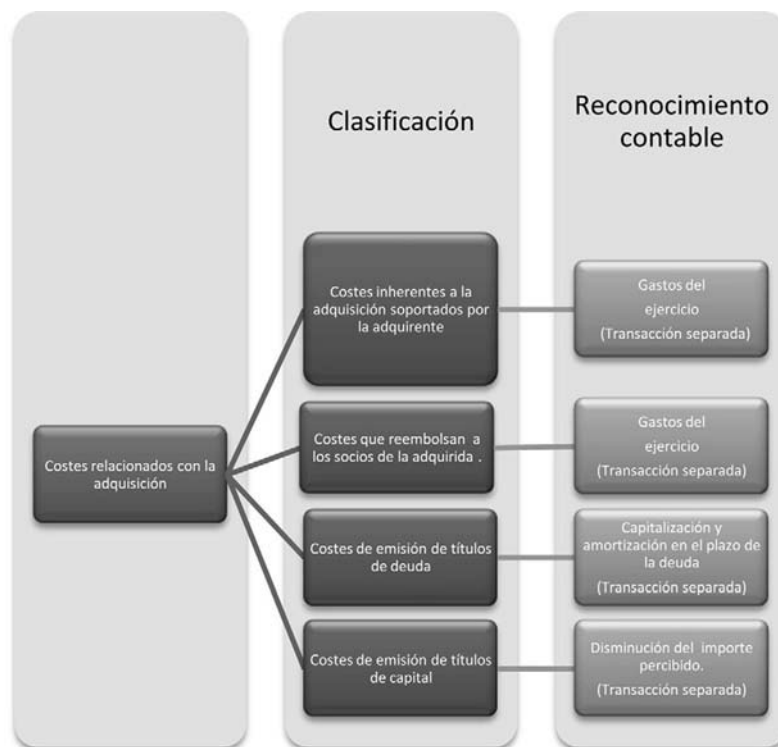
date as the version previous, that is, January 1, 2013, although its application is allowed in advance.

10 When the debt is recorded at fair value through profit or loss, the issuance costs will be recorded as an expense for the year.

quirent [IFRS 3(R). 52(c); FAS 141 (R)]. These must be treated as “separate transactions ”, reducing the amount of the consideration transferred for the purposes of calculating goodwill (goodwill account).

Figure 3

Accounting treatment of expenses related to the acquisition



Conclusions

The IASB recognizes, in the document *Basis for Conclusion on IFRS 3* , that in the field of business combinations there are occasions in which agreements may be accepted for the benefit of the acquiring company or the combined



entity with the target, for example , to present more favorable financial statements after the business combination . To avoid these situations, The revised versions of IFRS 3 (2008) and FAS 141 (2007) provide regulatory coverage , which has not existed until now , to certain transactions that affect the calculation of the cost of the business combination and, therefore , to the goodwill (goodwill account) , distorting its true accounting essence and which are called separate transactions. The specific accounting treatment attributed to this problem responds to the fact that , in business practice , certain operations take place that can cast doubt on the true value of the consideration given by the acquirer at the time of receiving the assets acquired and liabilities assumed, since these amounts usually include amounts that correspond to operations not directly related to the acquisition itself (relations pre-existing rights, reacquired rights , replacement of certain remuneration systems, costs inherent to the acquisition borne by the acquirer, etc.). In this regard, the revised standards include specific guidelines to identify, value and recognize these transactions in accounting terms, which must be shown separately from the rest of those incurred in the business combination.

The particularities of these transactions separated from the business combination imply a specific accounting treatment, in accordance with their economic content, of certain operations. Thus, the liquidation of pre-existing relationships will give rise to the recognition of an income or expense whose value will depend on the contractual nature (fair value less the book value) or not (the lower of the amount for which the contract is favorable or unfavorable in relation to market conditions and the amount of any settlement clause unfavorable) of the transaction; the mandatory (for the part

corresponding to post- combination services) or voluntary replacement of remuneration systems will generate the recognition of personnel expenses ; and the costs borne by the acquirer for the acquisition will give rise to the recognition of an expense. Likewise, they will constitute separate transactions , which will give rise to the recognition of intangible assets other than the goodwill (goodwill account) , the rights reacquired as a result of the business combination .

On the contrary, the difference between the amount for which the previous contractual relationship is favorable or unfavorable for the acquirer will form part of the consideration given for the acquisition, for the purposes of calculating the goodwill (goodwill account). and the amount of any settlement clause established in the contract (provided that the second amount is less than the first), the mandatory replacement of remuneration systems (by the corresponding to pre-combination services), and all those transactions that cannot be classified as separate transactions from the business combination.

However, international and American regulations oblige the acquiring company to consider not only the separate transactions expressly regulated , but also all those that due to their characteristics should be considered as such even if they are not any of those listed in the regulations with the objective to calculate the cost of the business combination more in line with economic reality, avoiding overestimating or underestimating the goodwill (credit account) .



In short , the regulatory changes that have been carried out in recent years in relation to international accounting practice subject professionals in this field to a constant exercise of updating their knowledge. In accordance with this situation , it is especially relevant to develop works that highlight the main novelties introduced by these changes and that contribute to the treatment of specific aspects that require greater depth. In this sense, This study contributes to the understanding and development of accounting practice in relation to separate transactions of business combinations, driven by the harmonization process of international [IFRS 3 (R), 2008] and American [FAS 141(R) , 2007].

References

Báscones Ramos, JM (2008). Consolidation of financial statements. Analysis of the new versions of the international standards IAS 27 and IFRS 3. Journal of Accounting and Taxation (308): 151-192.

Deloitte (2009). Business combinations and changes in shareholdings . _ Guide to revised IFRS 3 and IAS 27 . _ _ Available at: <http://www.iasplus.es>.

Financial Accounting Standard Board (FASB) (2004). FAS 123(R). Share-Based Payment . FASB. Norwalk, Conn.

(2007). FAS 141(R). Business combinations. FASB. Norwalk, Con- necticut.

International Accounting Standards Board (IASB) (2004). International Financial Reporting Standard, IFRS 2, Share-based Payment . London, UK.



(2008a). *International Financial Reporting Standard, IFRS 3, Business combination* . London, UK.

(2008b). *Basis for Conclusions on IFRS 3*. London, UK.

(2009). *International Accounting Standard 39: Financial Instruments: Recognition and Measurement* . London, UK.

Manzanaque, M., R. Banegas and A. Simón (2008). *Accounting treatment of business combinations*. *Double Game* (205): 14-33.

Manzanaque , M., Merino Madrid, E. and Banegas Ochovo, R. (2011): *New accounting treatment of RD 1159/2010 for business combinations* . *Double Entry* , 232: 49-63.

Merino Madrid, E.; Banegas Ochovo , R. and Santos Peñalver, JF (2010): *Accounting treatment of stock options according to international accounting regulations* . *Accounting and Administration* , 230: 105-130.

PriceWaterHouseCoopers (2008). *A Global Guide to Accounting for Business Combinations and Noncontrolling Interests. Application of the US GAAP and IFRS Standards*. Available at: <http://www.pwc.com>.