IFRS®

STAFF PAPER

December 2021

Accounting Standards Advisory Forum

Project	**Goodwill and Impairment**	
Paper topic	Staff examples	

CONTACT(S)	Dehao Fang	fdehao@ifrs.org
	Craig Smith	csmith@ifrs.org

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Purpose and structure

1. This document contains staff examples illustrating what we expect an entity might disclose if the International Accounting Standards Board (Board) were to make its preliminary views in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* a requirement in IFRS Standards. See Agenda Paper 4 to this meeting for more details on the Board's preliminary views.

2. The examples illustrate our view of what entities might disclose based on the Board's preliminary views and this view may not be shared by other members of the staff or the Board. The Board has not reviewed or approved these examples and the examples do not represent an official position of the Board. An official position of the Board on technical matters is reached only after extensive due process and deliberation.

3. Actual disclosures made by entities would be acquisition-specific and therefore the actual information provided by entities applying the preliminary views could differ. The examples are intended to illustrate the Board's intentions and provide stakeholders with an idea of the type of information, as well as the level of detail, that could be provided given certain facts and circumstances.

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4. The paper is structured as follows:

   (a) Example 1 (pages 3–8), including:

      (i) Background information (pages 3–6); and

      (ii) Illustrative disclosures (pages 7–8).

   (b) Example 2 (pages 9–13), including:

      (i) Background information (pages 9–11); and

      (ii) Illustrative disclosures (pages 12–13).

Staff Example 1: Westferry Inc and Cannon Street Enterprises

Background information

Information about the business combination

Established in 19X5, Westferry Inc (Westferry) manufactures and sells processed foods and beverages. It has three geographical reportable segments: Alpha (Europe and Central Asia), Beta (South East Asia) and Gamma (Americas). Westferry is listed on the London Stock Exchange and presents financial statements in compliance with IFRS Standards.

On 1 July 20X5, the company announced an acquisition of Cannon St Enterprises (Cannon), a company based in South East Asia that also manufactures and sells processed foods and beverages. The deal closed on 1 October 20X5. Westferry acquired 100% of Cannon's net assets for total cash consideration of CU1,500 million. The Cannon acquisition will be incorporated into segment Beta.

Westferry recognised CU300 million of goodwill on acquisition. Goodwill mainly represents:

(a) the future economic benefits to be realised through cost saving measures Westferry expects to implement; and
(b) the value of Cannon's assembled workforce.

Strategic rationale and business plan

The acquisition of Cannon is expected to make Westferry one of the largest global manufacturers and sellers of processed foods and beverages, which is in line with the Group's business strategy to be the leading global company within the industry. The additional production capacity and sales channels the Cannon acquisition brings would significantly increase the Group's operations in South East Asia, giving the Group better access to fast growing Asian markets. Westferry's objective for this acquisition is to strengthen its market position in South East Asia by increasing its market share from approximately 15% to approximately 20% by 20X8. This would make Westferry one of the top three largest companies in South East Asia in this industry.

Management believe retaining the staff of Cannon and utilising their expertise and knowledge of markets, particularly in South East Asia, is critical to successfully integrating the Cannon business and realising the full benefits of the acquisition, including cost savings. Westferry hopes to retain all key management personnel of Cannon and keep the cumulative existing Cannon staff turnover in the next 3 years below 25%. In order to achieve this goal, all key management personnel were offered retention bonuses, which were confidential and ranged from 20% to 50% of the individual's annual salary if they remained with the entity for the next 3 years.

Management expect approximately CU28 million of recurring annual cost savings (before tax) from the acquisition, with these being achieved in full by the end of 20X8. Management estimates the present value of the total expected cost savings at approximately CU250 million. Internal estimates of the breakdown of the expected annual cost savings are as follows:

- Rental of office premises—CU3 million per annum
- Rental of warehouse—CU6 million per annum
- Logistics—CU5 million per annum
- Utilities—CU1 million per annum
- Redundancies
    - Administration—CU2 million per annum
    - Finance—CU3million per annum
    - HR—CU2 million per annum
    - IT support—CU4 million per annum
- Others—CU2 million per annum

Total merger costs are estimated at CU55 million. This includes initial costs of approximately CU40 million for Group wide IT system migration, CU10 million for early termination of rented premises of Cannon and CU5 million of expected redundancy payments. Westferry expects the system migration to help save on-going costs which have been reflected in the Group's cost saving estimates.

Management plans to integrate the operations of Cannon as soon as possible to realise the expected benefits from the acquisition and expects the acquisition to boost segment Beta revenue by at least 30% and profit by at least 35% by 20X8.

Objectives and metrics

In determining the metrics management will use to monitor the performance of the business combination, the chief operating decision maker (CODM) observed:

An entity needs to disclose only the metric(s) that are linked to the objectives for the acquisition—the objectives that the CODM considers must be achieved for the acquisition to be a success (key objectives). An entity need not disclose all information the CODM receives.

In this example, although retainment of employees is reviewed by the CODM it does not need to be disclosed.

- Due to the large amounts of expected synergies between Westferry and Cannon, monitoring the business combination based on the acquired business alone may not accurately represent the performance of the business combination. The CODM will therefore monitor the business combination based on segment Beta's performance, which also aligns with the entity's objective of increasing its operations in South East Asia.
- It is important for Westferry to have a stable workforce to ensure the smooth operations of Cannon post-acquisition and to ensure its successful integration with the existing business operations of Westferry. However, not all employees are equally critical for the execution of Westferry's strategy. Therefore, although the CODM monitors all employee turnover, only the retention of Cannon's key management personnel is a key objective.
- Although management has internal expectations of merger costs, the CODM does not consider such costs to be key objectives because they are not a material component of the value proposition for the business combination.

In line with the above considerations, the CODM identified the following key objectives for the business combination:

- to increase the annual revenue and profit of segment Beta by 30% and 35%, respectively, by 20X8 (compared to 20X5);
- to increase the Group's market share in South East Asia (from approximately 15% to approximately 20% by 20X8);

- to retain Cannon's key management personnel; and
- to achieve recurring annual cost savings of approximately CU28 million for segment Beta by 20X8 (compared to 20X5).

Given the objective of increasing the Group's market share in South East Asia and the expectation of achieving full cost savings by 20X8, the CODM plans to monitor the success of the business combination until 20X8. The cost savings achieved are estimated by the finance team and the CODM expects the combined revenue and profit information of segment Beta to provide a reasonable view of the performance of the business combination in this initial period. After this period, the performance of Cannon will no longer be monitored against the acquisition date expectations but will form part of the overall budgeting and review process for segment Beta.

The Board's preliminary view is to require an entity to disclose the performance of a business combination for as long as the CODM is reviewing performance against initial objective. However, if the CODM stops monitoring the acquisition before the end of the second full year after the year of acquisition, the entity should be required to disclose that fact and the reasons why it stopped monitoring the acquisition.

Subsequent performance

The December 20X5 reporting to the chief operating decision maker noted:

- the integration of the acquisition of Cannon is proceeding as planned. All acquisition-date targets remain unchanged.
- the latest third-party market share information indicates the Group has 16% market share in South East Asia.
- Westferry managed to realise CU5 million recurring annual cost savings in the financial year ended 20X5.
- the Group incurred CU25 million of merger costs during the year.
- since the acquisition date, 6% of Cannon's employees have left but all key management personnel of Cannon remain with the Group.

The December 20X6 reporting to the chief operating decision maker noted:

- the Cannon acquisition is proceeding as planned and has contributed to higher revenue and profits. Revenue in segment Beta has increased 20% during the year and segment profit is 25% higher. Based on internal reporting the CODM considers the increased revenue and profit in segment Beta during the period to primarily reflect the effects of the business combination.
- The latest third-party market share information indicates the Group had 18% market share in South East Asia.
- Westferry managed to realise CU15 million recurring annual cost savings in the financial year ended 20X6, bringing the total cumulative amount of annual cost savings realised to CU20 million.
- Although the total amount of expected cost savings remains unchanged, recurring annual cost savings of only CU22 million are expected to be fully realised by 20X8. The full amount of recurring annual cost savings of CU28 million are now expected to be achieved from the end of 20X9.
- The Group incurred a further CU15 million in merger costs during the year. Total merger costs are expected to be lower at CU48 million (compared to CU55 million as originally estimated) due to lower than expected system migration costs.

- A further 4% of Cannon's employees have left in the year but all key management personnel of Cannon remained.
- Management expect to still achieve the original objectives for segment revenue and profit, employee turnover and market share.

Disclosures in Westferry's financial statement for the year ended 31 December 20X5:

Information about the acquisition

These are existing disclosure requirements in IFRS 3 that an entity is required to apply.

On 1 October 20X5, the Group completed its acquisition of Cannon St Enterprises (Cannon), a manufacturer and seller of processed foods and beverages based largely in South East Asia, by acquiring 100% of Cannon's net assets for total cash consideration of CU1,500 million.

The Group acquired Cannon as part of its overall business strategy to become the leading global manufacturer and seller of processed foods and beverages. The acquisition is expected to increase the Group's production and sales capacity in South East Asia, giving the Group better access to the fast growing South East Asian markets.

According to the Board's preliminary view, the CODM may monitor the performance of a business combination either on a standalone basis or on a combined basis. In this example, management monitors the business combination using combined metrics because they best represent the performance of the business combination.

The Group plans to integrate the business operations of Canon into segment Beta, and the CODM will monitor the performance of the acquisition on a combined basis using segment Beta information.

The Board's preliminary view requires an entity to provide quantitative information about expected synergies rather than only qualitative information.

In this example the entity provides a single amount but an entity could provide the range of expected amounts.

Information is disclosed at a higher level of aggregation than the CODM has access to. The preliminary view does not require a detailed breakdown of synergies but this could be provided if desired.

Goodwill arising from the acquisition amounted to CU300 million. Goodwill represents the value of Cannon's assembled workforce that is not separately identifiable and recognised, as well as future economic benefits the Group expects to realise through costs savings. The Group expects to realise recurring cost savings from implementing the Group's supply chain best practices, increased purchasing power and from optimised Group-wide support functions. The Group expects to achieve the full amount of recurring annual costs savings from 20X8 once the business of Cannon is fully integrated with the existing business operations of the Group. The Group estimates the present value of expected cost savings to be approximately CU250 million and estimates the cost to achieve these savings at approximately CU55 million.

The entity discloses in the year of acquisition the metrics it will use to monitor success of the acquisition. This is based on the information the CODM will use to monitor the acquisition and so will vary between acquisitions. Such metrics may be monetary or non-monetary.

In line with the Group's strategy, the objectives for this acquisition are:

- to increase the annual revenue and profit of Segment Beta by 30% and 35%, respectively, by 20X8 (compared to 20X5);
- to increase the Group's market share in the South East Asia by 20X8 (from approximately 15% to approximately 20%);
- to retain all key management personnel of Cannon; and
- to achieve recurring annual cost savings of approximately CU28 million for Segment Beta by 20X8 (compared to 20X5).

Information about subsequent performance

Management need to provide an update of progress towards its objectives in the year of acquisition.

For the financial period ended 31 December 20X5, the integration of the acquisition of Cannon has proceeded as planned. The Group:

- increased its market share to 16% in South East Asia;
- retained all key management personnel of Cannon; and
- realised recurring annual cost savings of CU5 million for Segment Beta.

The Board did not propose a specific requirement to disclose this information but it is useful for users and could assist the entity in meeting the objective of the disclosure requirements to provide users with an understanding of the extent to which the CODM's objectives are being met.

Management expect the Group to achieve the key objectives for the acquisition.

Disclosures in Westferry's financial statements for the year ended 31 December 20X6:

Information about the business combination

The acquisition date key objectives are repeated in the subsequent period for reference.

Management identified the objectives for the acquisition of Cannon at the acquisition date. These objectives are:

- to increase the annual revenue and profit of segment Beta by 30% and 35%, respectively, by 20X8;
- to increase the Group's market share in the South East Asia by 20X8 (from approximately 15% to approximately 20%);
- to retain all key management personnel of Cannon; and
- to achieve recurring annual cost savings of CU28 million for Segment Beta by 20X8 (compared to 20X5).

Information about subsequent performance

During the financial year ended 31 December 20X6, the Group's integration of Cannon continued and:

- revenue and profit in segment Beta increased by 20% and 25% respectively compared to the revenue and profit before the business combination;
- the Group increased its market share in South East Asia to 18%;
- the Group retained all key management personnel of Cannon as at 31 December 20X6; and
- the Group realised recurring annual cost savings of CU15 million for Segment Beta in 20X6, bringing the total cumulative amount of recurring annual cost savings realised since the acquisition date to CU20 million.

Management expect the Group to achieve all key objectives for the acquisition, except for annual cost savings, which management now expect to achieve from 20X9.

Staff Example 2: Libra PLC and Scorpio Limited

Background information

Information about the business combination

Libra PLC operates a leading social networking platform in Atlantis. The entity derives its revenue mainly from targeted advertisements on its platform. Libra is listed on the Atlantis Stock Exchange and produces financial statements in compliance with IFRS Standards.

Libra has been growing rapidly for the past decade, but its management is concerned that such growth may not be sustainable for much longer. Therefore, management has been looking for new growth opportunities and to diversify Libra's sources of income.

On 1 January 20X7, Libra announced that it had completed the acquisition of 100% of Scorpio Limited, an online food delivery platform, for total cash consideration of CU100 million. Both Libra and Scorpio have 31 December financial year ends. The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed was CU45 million (mainly the brand value of Scorpio Limited). This resulted in an amount of CU55 million of goodwill being recognised, which represents:

1. revenue and cost synergies Libra expects to realise through the acquisition; and
2. the value of Scorpio's assembled workforce.

Strategic rationale and business plan

The strategic rationale of the business combination is to sustain revenue growth. Scorpio Limited has three revenue streams: a flat delivery fee for each order, a percentage-based commission fee and an advertisement fee for search priority. Libra expects to realise both revenue and cost synergies from the acquisition. Post-acquisition, based on Libra's business plan:

1. The Group will revise its corporate structure and have two business segments:
    a. Advertising—advertisements for the Group's integrated social networking and food delivery platform; and
    b. Food delivery—non-advertisement revenue from the food delivery service.
2. The platforms for food delivery and social networking will be combined into one to serve existing Libra and Scorpio users. This will enable both services offered by the Group (social networking and food delivery) to reach a larger combined customer base.
3. The Group will launch a marketing campaign that offers cash rebates to existing Libra users to promote Scorpio's services. This cash rebate scheme is expected to last until December 20X8.
4. Support functions for both platforms will be consolidated to save cost.

As part of the acquisition process, management modelled cash flows for Scorpio to support its bid. Based on those internal estimates:

1. the combined daily active users are forecast to increase by between 7–12% in 20X7, and by 3–5% each year for the following 3 years.
2. the combined revenue for the Group's Advertising segment is expected to increase by 8% in 20X7, 5% in 20X8 and 3% each subsequent year.
3. the revenue from the Group's Food delivery segment is expected to increase by 12% in 20X7, 7% in 20X8 and 4% each subsequent year. The cost of the cash rebate is expected to off set the increased revenues in 20X7 and 20X8.
4. consolidation of support functions would allow the Group to save CU2 million per year compared to if those support functions were run separately.
5. management estimates the present value of the annual cost and revenue synergies to be CU15 million and CU40 million respectively. Management expect to incur approximately CU15 million (inclusive of cash rebates) to achieve those synergies.

Objectives and metrics

In determining the metrics the chief operating decision maker (CODM) will use to monitor the performance of the business combination, the CODM observed:

> In both examples, the CODM monitors the performance of the acquisition at segment level. However, monitoring of acquisitions does not always need to be performed at the segment level. The CODM may monitor the business combination at the acquired entity level, business unit level or another level as appropriate, depending on the internal organisation of entities.

- A key objective of the business combination is to consolidate the two platforms to increase the overall user base of the combined platform. The smooth integration of the platforms is vital to the success of the business plan. Therefore, the CODM will monitor the increase in daily active users of the combined platform, as well as the integration of the platforms.
- The strategic rationale of the business combination is to sustain revenue growth. Although consolidating the support functions will allow Libra to save some costs, these savings were not the focus of the business combination. Similarly, the amount to be spent on the cash rebate is not a key focus of the business plan.
- Because of the planned integration of the platforms and revenue synergies between the existing and acquired businesses, management will monitor the success of the business combination based on the revenue growth in each business segment, as well as the growth in combined user base, rather than attempting to isolate the performance of the acquired entity.
- Management expect to fully integrate the business operations of Scorpio by 31 December 20X7, along with the launch of the combined platform. The combined information reviewed by the CODM is expected to reflect the achievement of the objectives of the business combination in the first few years and the CODM expects to stop monitoring the business combination once the integrated platform has been developed and implemented. The CODM will, at that point, review the business operations as part of the overall annual budgeting process and performance monitoring for the individual segments.

Subsequent performance

The December 20X7 reporting to the chief operating decision maker noted:

The Board's preliminary view does not require an entity to track and monitor the achievement of synergy if that information is not a key objective that the CODM has identified for the business combination to be monitored in subsequent periods.

- Due to technical difficulties in integrating the software and databases used by the two platforms, the combined platform was not launched in 20X7 as originally planned. The combined platform was launched after the financial year-end on 1 January 20X8. The plan to offer cash rebates to customers was similarly deferred and started in January 20X8.
- The daily active users for Libra and Scorpio increased by 5% and 6% respectively in 20X7. Information on combined daily active user growth in 20X7 was not available because the integrated platform was not launched in 20X7.
- The combined revenue for the Group's advertising and food delivery businesses increased by 5% and 8% respectively in 20X7.
- Despite the setback in launching the new platform, consolidation of support functions has been successful, and helped the Group achieve recurring annual cost savings of CU2.2 million in 20X7.

The December 20X8 reporting to the chief operating decision maker noted:

- The launch of the new platform in 20X8 was successful.
- The combined daily active users for the new combined platform increased by 10% in 20X8.
- The combined revenue for the Group's advertising and food delivery businesses increased by 12% and 16% respectively in 20X8. Based on internal reporting the CODM considers the performance of the advertising segment during the period to primarily reflect the effects of the business combination.
- Consolidation of support functions helped the Group achieve recurring annual cost savings of CU1.8 million in 20X8, a combined annual saving of CU4 million since acquisition.
- Based on updated internal forecasts, management's original objectives for the business combination beyond 20X8 are still achievable despite the initial setbacks.

Disclosures in Libra's financial statements for the year ended 31 December 20X7:

Information about the business combination

On 1 January 20X7, the Group completed its acquisition of Scorpio Limited (Scorpio), an online food delivery platform based in Atlantis, by purchasing 100% of Scorpio's ordinary shares outstanding for total cash consideration of CU100 million.

Goodwill arising from the acquisition amounted to CU55 million. Goodwill represents:

- the value of Scorpio's assembled workforce that is not separately identified and recognised; and
- future economic benefits the Group expect to realise through revenue synergies from cross-selling opportunities and cost savings from consolidating support functions. The present value of expected synergies is CU15 million of cost synergies and CU40 million of revenue synergies. Management estimates the cost to achieve these synergies at approximately CU15 million.

The Board's preliminary view does not require an entity to disclose specific plans for where synergies are expected to arise.

The Group acquired Scorpio as part of its overall growth strategy. The Group plans to combine Scorpio's food delivery platform with Libra's social networking platform into an integrated platform, allowing users to gain seamless access to both service lines. By expanding its user base, the Group expects to benefit from revenue synergies between Scorpio's product offerings and the existing business lines of the Group and achieve sustainable revenue growth.

The Group monitors the performance of the acquisition by product lines. In line with the Group's strategy, management's objectives for this acquisition are as follows:

- to launch an integrated platform for the Group's social networking and food delivery products in 20X7;
- to increase the combined daily active users on the integrated platform by 7–12% in 20X7, and by 3–5% for each of the following 3 years;
- to increase the revenue from the Group's Advertising segment by 8% in 20X7, 5% in 20X8 and 3% each subsequent year; and
- to increase the revenue from the Group's Food delivery segment by 12% in 20X7, 7% in 20X8 and 4% each subsequent year.

Information about subsequent performance

The revenue for the Group's Advertising and Food delivery segments increased by 5% and 8% respectively.

The Group was unable to launch an integrated platform during the year. As a result management was unable to monitor the growth in daily active users on a combined basis. Instead, management monitored daily active users for Libra and Scorpio's platforms separately. The daily active users using the Libra and Scorpio platforms increased by 5% and 6% respectively in 20X7. The integrated platform was launched after the reporting period on 1 January 20X8. Management's objectives for the acquisition are unchanged as a result of this delay.

The Board's preliminary view is to require an entity to disclose a change of metric if the CODM no longer monitors the metric set out at the acquisition date.

In this case, the combined user numbers are unavailable and instead the entity monitors and discloses user growth of the two platforms separately.

An entity needs to disclose non-adjusting events after the reporting date applying IAS 10 *Events after the Reporting Period*. This is included in the example because it relates to the business combination. An entity may also disclose this information in a separate note.

Disclosures in Libra's financial statements for the year ended 31 December 20X8:

Information about the business combination

Management identified the objectives for the acquisition of Libra at the acquisition date. These objectives include:

- to launch an integrated platform for the Group's social networking and food delivery products in 20X7;
- to increase the combined daily active users on the integrated platform by 7–12% in 20X7, and by 3–5% each year respectively for each of the following 3 years; and
- to increase the revenue from the Group's Advertising segment by 8% in 20X7, 5% in 20X8 and 3% each subsequent year; and
- to increase the revenue from the Group's Food delivery segment by 12% in 20X7, 7% in 20X8 and 4% each subsequent year.

Information about subsequent performance

The Group launched its integrated platform on 1 January 20X8.

During the financial year ended 31 December 20X8, the daily active users for the new combined platform increased by 10% and the revenue for the Group's advertising and food delivery businesses increased by 12% and 16% respectively.

As a result of the launch of the integrated platform, the CODM stopped monitoring the performance of the acquired business against the acquisition date objectives as at 31 December 20X8. Instead, management monitor the business as part of its ongoing business process. Despite the delay in launch of the integrated platform in 20X7, management consider the performance subsequent to the launch on 1 January 20X8 to exceed its objectives.

Based on the Board's preliminary view, an entity would be required to disclose that the CODM no longer monitors the performance of the business combination, including the reasons, if that happens within 2 full financial periods after the year of acquisition.

The Board's preliminary view is to add a disclosure objective to IFRS 3 that would require an entity to provide users with information to help them understand the extent to which management's objectives for a business combination are being met.