Chapter 5
Convergence and Divergence Regarding Business Combinations

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ABSTRACT

The presence of several legal entities within the same group entails the existence of as many independent accountants as there are companies. In accordance with IFRS 3 "business combinations," the result is goodwill that will be recognized as a non-current intangible asset in the consolidated balance sheet, being subjected annually to the impairment test; insofar as the investment cost is lower than the acquisition cost of the net assets, the negative goodwill will be obtained which will be recognized in the form a profit in the consolidated profit and loss account. In addition, national differences in accounting, taxation, and auditing are the sources of the various problems that arise in the process of controlling subsidiaries and consolidating accounts. This chapter aims to study the convergence and divergence regarding business combinations in the joint business as well as to analyze the managerial controversies that are presented in the conversion of the financial statements.

INTRODUCTION

Intangible assets acquired in a business combination, including a project represented by an internal research and development process, are recognized in accordance with IFRS 3 as assets separated from goodwill if they meet the definition and criteria for recognizing assets, if they are separable or result

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from contractual or legal rights, and the fair value of the assets can be measured reliably (Ball, Li & Shivakumar, 2015; Iatridis, 2010; Guthrie & Parker, 2016).

Also, the same Standard stipulates that "in some circumstances, the acquirer may be required to make a subsequent payment to the seller, as compensation for a reduction in the value of the assets given, the equity instruments issued or the debts existing or assumed by the acquirer in exchange for control on the acquired company. This is the case when, for example, the acquirer guarantees the market price of the issued capital or debt instruments as part of the cost of the business combination and is required to issue additional capital or debt instruments to recover the initially determined cost. In such situations, no increase in the cost of the business combination is recognized. in the case of equity instruments, the fair value of the additional payment is offset by an equal reduction in the value attributed to the instruments originally issued. in the case of debt instruments, the additional payment is regarded as a reduction of the premium or an increase of the discount at the initial issue" (Choi, Peasnell & Toniato, 2013; Barth, Landsman & Lang, 2008;).

The high degree of competitiveness of an entity depends fundamentally on the degree of structuring, optimization and relationship between its processes. If the management of the entity wants lower production costs, lower delivery times and high quality of works, it must necessarily change its business processes. All the issues related to the mentioned issues are centralized and analyzed by a specialist, called a business analyst who will prepare two situations regarding the business processes of the entity: a current situation and a future situation that is desired. The business analyst also has the responsibility to facilitate, aggregate and monitor the business processes, while the management responsibility only includes providing the information necessary to guarantee the entire process. Ensuring success on the line of business process optimization can be translated by permanently optimized internal processes or by a methodology of permanent improvements.

The emphasis in this standard is on the accounting treatment at the date of purchase. In particular, it provides that all business combinations will be accounted for by applying the acquisition method (Schleicher, Tahoun & Walker, 2010).

There may be situations where more investors are interested in investing in the same entity (Ball, Li & Shivakumar, 2015). They may at any time have a greater or lesser influence on the entity, but only one of them may have control (Iatridis, 2010). Other investors may have the right to participate in decision-making on the activities of the entity, which may eventually constitute evidence of significant influence, but not of control (Cairns, Massoudi, Taplin & Tarca, 2011).

The so-called acquisition cost and the cost of the business combination represent the sum of the fair values of the transferred assets, the acquired debt and the equity instruments issued by the acquirer, in exchange for the control over the acquired entity, at the date of the transaction. It also includes direct costs, directly attributable (such as professional fees), but not the costs of issuing equity or debt used to pay the obligation. When a contract for a business combination provides for an adjustment of the cost of the combination based on future events, the acquirer will include the value of that adjustment in the cost of the combination at the date of purchase, if the adjustment is probable and can be reliably evaluated (Allen & Ramanna, 2013; Bozec, 2008; Chen, Tang, Jiang & Lin, 2010; Tendeloo & Vanstrelen, 2005).

Despite the solid principles embodied in IFRS 3, many analysts believe that determining fair value implies a considerable degree of managerial flexibility. Intangible asset values, such as computer software, may not be easily validated when analyzing acquisitions.

The managerial reasoning can be evident especially in the allocation of the purchase price surplus (after all other allocations to assets and liabilities). If, for example, the remaining excess purchase price

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