Definition of a Business

under Ind AS 103

Devils are all in details

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LEARNING OUTCOME

Asset acquisition or business combination ?

A business combination is a transaction or event in which an acquirer obtains control of a business rather than an entity (which may not meet the definition of a business). **The fact is that, in many cases, transactions that are more akin to asset acquisitions are being accounted for as business combinations.**

At first, an entity must determine whether an integrated set of assets and activities (collectively a set) should be accounted for as an acquisition of a business or group of assets.

An asset acquisition is an acquisition of an asset(s), that does not meet the definition of a business **(See page 11)**. In effect, such an acquisition does not meet the definition of a business combination. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition.

It is relatively easy to determine, in most cases, whether a group of acquired assets and assumed liabilities (an integrated set of assets and activities) constitute a business. But, there are some cases, where the determination can be complicated. This arises, when the fair value of the acquired group is concentrated in just one or few similar assets, or there are little or no operations.

INTRODUCTION

Distinguishing between the acquisition of a business and the acquisition of an asset or group of assets is important because, there are differences between the accounting for an asset acquisition and the accounting for a business combination. For example, **first**, in a business combination, the acquired assets are recognised at fair value (with limited exceptions) and goodwill / bargain purchase is recognised, whereas in an asset acquisition, the cost of the acquisition is allocated to the asset(s) acquired on a relative fair value basis and no goodwill / bargain purchase is recognised. **Secondly**, deferred taxes are recognised in a business combination, but not on asset acquisition. **Lastly**, in a business combination, transaction costs are not included as part of the consideration transferred. But, transaction costs are generally a component of the consideration transferred to acquire the asset(s) in an asset acquisition, and are capitalised as a part of the cost of the asset(s) acquired in accordance with the applicable standards (eg, Ind AS 16 – *Property, plant and equipment* or Ind AS 40 – *Investment property*).

The Optional Concentration Test

Once an entity has identified the acquired set of assets and activities, it then evaluates by applying the optional concentration test whether the set is not a business. The **concentration test** is designed to identify a transaction that is clearly more akin to an asset acquisition and remove it from the scope of the business combination guidance. The concentration test is intended to reduce the number of transactions that an entity must further evaluate to determine whether they are asset acquisitions or business combinations. **A transaction does not automatically become a business combination if the concentration test is not met**, ie, does not result in an asset acquisition. **An entity then need to assess the transaction under the full framework, ie, elements of a business (discussed later).**

In applying the concentration test, an entity determines whether **substantially all *** of the ***fair value of the gross assets acquired*** [1] is concentrated in *a* ***single identifiable asset*** [2] or ***group of similar identifiable assets*** [3].

* A significant judgement is required when determining whether the **substantially all** threshold is met. There is *no bright line*, but it is **typically interpreted to mean at least 90%**.

[1] *Gross assets acquired shall* ***exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities*****.

*** An entity does not recognise* ***deferred tax liabilities*** *arising from the initial recognition of goodwill, since goodwill cannot be measured directly and is measured as a residual. The point to note is that the recognition of the deferred tax liability would increase the carrying amount of goodwill. For example, in a business combination, when the carrying amount of an asset is increased to its fair value but the tax base of the asset remains at cost to the acquiree, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability increases goodwill.*

However, the fair value of the gross assets acquired should include any consideration transferred *(plus* the fair value of any non-controlling interest and the fair value of any previously held interest, if any*)* *** in *excess of* the fair value of net identifiable assets acquired [ie, goodwill (at fair value) in a business combination].

**** For example, in the acquisition of a 75% controlling interest in an entity, the gross assets would include the 75% acquired interest plus the 25% non-controlling interest.*

Including goodwill in the determination of the fair value of the gross assets acquired means that the concentration test is based on an amount that is affected by the value of any substantive process acquired. Therefore, an acquirer should consider whether all of the tangible and intangible assets and liabilities in the acquired group have been specifically identified, recognised, and correctly valued (taking into account recognition or measurement exceptions) before determining whether goodwill is present.

For purposes of the concentration test, the fair value of the gross assets acquired is not necessarily the same as the consideration transferred in a business combination, ie, the transaction price.

Cash and cash equivalents are **excluded to prevent entities from increasing the transaction price with no economic substance**. The tax form of the transaction that often dictates the amount of deferred taxes in the transaction should not affect the determination of whether the transaction is a business. The point to note is that these assets are independent of whether any substantial process is acquired (discussed later). In practice, it would be necessary to determine the amount of deferred tax assets to be excluded only if **including the deferred tax assets could lead to the concentration test not being met**.

The fair value of the gross assets acquired may normally be determined as the total obtained by adding the fair value of the consideration transferred *(plus* the fair value of any non-controlling interest and the fair value of any previously held interest, if any*)* to the fair value of the liabilities assumed (other than deferred tax liabilities), and then excluding the items, as identified above. However, if the fair value of the gross assets acquired is more than the total, a more precise calculation may sometimes be needed.

[2] **A single identifiable asset includes any individual asset or group of assets that could be recognised and measured as a single identifiable asset in a business combination.**

An asset is identifiable if it either –

- is separable, ie, capable of being separated or divided from the entity and sold, transferred, licenced, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so ; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights or obligations.

The exception is that, an entity recognises any resulting deferred tax assets (to the extent it is permitted) or deferred tax liabilities as identified assets or liabilities respectively at the acquisition date. Consequently, these deferred tax assets and deferred tax liabilities affect the amount of goodwill/bargain purchase gain the acquirer recognises.

This Standard specifies certain assets that must be grouped for purposes of applying the concentration test. The point to note is that this grouping is **only applicable for the concentration test**, and all assets acquired continue to be recorded separately in a business combination. Therefore, a single identifiable asset includes assets that are attached or cannot be removed from other assets without incurring significant cost or loss of value of either asset. For example, land and a building would generally be recognised as separate assets in a business combination, but would be considered a single identifiable asset when performing the concentration test.

Other examples of a single identifiable asset are manufacturing equipment, trade marks etc.

Example 1

P Ltd. acquires from S Ltd. a number of buildings, each of which includes land, appurtenant thereto, ie, any building cannot be thought of without the existence of the land.

Therefore, the building and the land together should be considered as a single identifiable asset.

Example 2

P Ltd. acquires from S Ltd. a discontinued operation – land, building, plant and related equipments.

There are two single identifiable assets –

- ***Land and building*** can be considered a single identifiable asset, because land is the part and parcel of the building.
- ***Plant and related equipments***, since they are attached or cannot be removed from other assets without incurring significant cost or loss of value of either asset.

[3] **Assets are grouped when they have a similar nature and have similar risks associated with managing and creating outputs from the assets**. If the risks are not similar, the assets cannot be combined for the concentration test. An entity should consider different risk factors depending on the nature of the asset. For example, in the real estate industry, it is common for acquisitions to include several properties. An entity should carefully consider the specific facts and circumstances, including class of property and location when concluding whether assets acquired in a transaction are similar. **An entity may also need to consider different types of risks for assets within a particular industry.**

The following shall not be considered similar assets –

- A tangible asset and separate intangible asset;
- Different major classes of tangible assets (eg, inventory, manufacturing equipment and automobiles) *unless* they are considered a single identifiable asset in accordance with the above;
- Identifiable intangible assets in different classes (eg, brand names, licences and intangible assets under development);
- A financial asset and a non-financial asset;
- Different major classes of financial assets (eg, accounts receivable and loans receivable);
- Identifiable assets that are within the same class of asset but have significantly different risk characteristics (eg, real estate investments that consist of residential and commercial properties).

Example 3

P Ltd. acquires from S Ltd. a number of residential quarters – each of which is similar to but not identical with the others. The risks associated with operating the properties and managing the tenants are not significantly different.

Assets are grouped when they have a similar nature and have similar risks associated with managing and creating outputs (rent, in this case) from the assets. Therefore, all the residential quarters can be combined as similar assets.

Example 4

P Ltd. acquires from S Ltd. a portfolio of bonds –

- Some with a stated maturity date and pays a fixed interest rate;
- Some with a stated maturity date but pays a variable market interest rate;
- Others are convertible into a fixed number of equity instruments.

Since the terms, sizes and risk ratings of the bonds are different, they are not similar assets.

An entity compares the fair value of the single identifiable asset (or group of similar assets) to the fair value of the gross assets acquired. For that, an entity would identify the individual identifiable asset with the greatest fair value or group of similar identifiable assets with the greatest fair value (whichever is greater). Thereafter, the entity compares that amount to the fair value of the gross assets acquired. If the fair value of that single identifiable asset or group of similar identifiable assets represents substantially all of the fair value of the gross assets acquired, then the concentration test is met and the set is not a business.

Example 5

Scenario 1 (Concentration test is not met)

P Ltd. acquired 75% of S Ltd. for CU 1,200. The income tax rate is 30%.

Balance Sheet of S Ltd.	CU
Assets	
Land	200
Building	500
Equipment	400
Cash and cash equivalents	350
Deferred tax assets	50
Total Assets	**1,500**
Equity and Liabilities	
Share capital	800
Retained earnings	200
Liabilities	400
Deferred tax liabilities	100
Total Equity and Liabilities	**1,500**

The fair value of assets are as under –

Land	CU 250	Building	CU 600	Equipment	CU 450

Is the concentration test met?

Analysis

Application of the concentration test begins with –

Step 1	Determining the fair value of gross assets acquired
Step 2	Identifying the fair value of a single identifiable asset
Step 3	Or the fair value of group of similar assets
Step 4	Compared with fair value of gross assets acquired

Step 1 ***Determine the fair value of gross assets acquired***
The starting point is to determine what assets would be recognised if the set were considered a business rather than group of assets.

Fair value of gross assets acquired (as per para B7B of Ind AS 103)	CU	CU
Consideration transferred		1,200
Fair value of non-controlling interest (CU 1,200 ÷ 75% x 25%)		400
		1,600
Liabilities		400
		2,000
Cash and cash equivalents	350	
Deferred tax assets	50	
Goodwill arising from deferred tax liabilities	60 *	(460)
Fair value of gross assets acquired		**1,540**

* [{(Land: CU 250 – CU 200) + (Building: CU 600 – CU 500) + (Equipment: CU 450 – CU 400)} x 30%].

Total of fair value of gross assets acquired	CU
Land	250
Building	600
Equipment	450
Goodwill **(See Note 1 below)**	400 *
Total of fair value of gross assets acquired	**1,700**

Note 1	CU
Consideration transferred	1,200
Fair value of non-controlling interest (CU 1,200 ÷ 75% x 25%)	400
	1,600
Fair value of net identifiable assets acquired **(See Note 2 below)**	(1,200)
Goodwill	**400**

Note 2	CU	CU
Land		250
Building		600
Equipment		450
Cash and cash equivalents		350
Deferred tax assets		50
		1,700
Liabilities	400	
Deferred tax liabilities	100	(500)
Fair value of net identifiable assets acquired		**1,200**

* This figure is determined in a manner similar to the initial measurement of goodwill in accordance with paragraph 32 of this standard, which is as under:

Paragraph 32 of Ind AS 103

The acquirer shall recognise goodwill as of the acquisition date measured as the excess of **(a)** over **(b)** below:

a) the aggregate of –

- **i.** The acquisition-date fair value of consideration transferred;
- **ii.** the amount of any non-controlling interest (in this case, at fair value);
- **iii.** fair value of any previously held equity interest.

b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Including goodwill in determining the fair value of the gross assets acquired means that the concentration test is based on an amount that is affected by the value of any substantive process(s) acquired.

Since the total of the fair value of gross assets acquired (CU 1,700) is **more** than the fair value of gross assets acquired (CU 1,540), the **fair value of the gross assets acquired is CU 1,540**.

In order to compare like with like, any items excluded (ie, cash and cash equivalents, deferred tax assets and goodwill arising out of deferred tax liabilities) from the fair value of gross assets acquired are also excluded from the total of fair value of gross assets acquired calculation.

Step 2 ***Combine the identifiable assets into a single identifiable asset***

The second step is to identify the single identifiable asset with the largest fair value.

Land and building together can be considered *a single identifiable asset* because they are attached and cannot be separated from one another without significant cost or diminution in the utility or the fair value of either asset. Therefore, the **largest** single identifiable asset **has a fair value of CU 850 (CU 250 + CU 600)**.

Step 3 ***Combine the identifiable assets into similar assets***

The third step is to identify the group of similar identifiable assets with the largest fair value.
None of the remaining assets qualify for combination as similar assets.

Step 4 ***Determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets***
The fourth step is the concentration test to determine when the set is not a business.

Fair value of gross assets acquired **(Step 1)**	CU 1,540
Fair value of the single identifiable asset **(Step 2)**	CU 850

The largest single identifiable asset has a fair value of CU 850 and is compared to the fair value of the gross assets acquired of CU 1,540.

Since the fair value of the gross assets acquired is not *substantially* concentrated in the fair value of that single identifiable asset (CU 850 ÷ CU 1,540 x 100 = 55% Approx.), the concentration test is not determinative that the set is an asset acquisition **(ie, the concentration test is not met)**. Therefore, further assessment is needed.

Scenario 2 (Concentration test is met)

P Ltd. acquired 60% of S Ltd. for CU 900. The income tax rate is 30%.

Balance Sheet of S Ltd.	CU
Assets	
Land	300
Building	800
Equipment	100
Cash and cash equivalents	150
Deferred tax assets	50
Total Assets	**1,400**
Equity and Liabilities	
Share capital	700
Retained earnings	275
Liabilities	300
Deferred tax liabilities	125
Total Equity and Liabilities	**1,400**

The fair value of assets are as under –

Land	**CU 400**	**Building**	**CU 1,000**

Is the concentration test met?

Analysis

Application of concentration test has been discussed earlier. **Please refer the 4 steps in Scenario 1**.

Step 1 ***Determine the fair value of gross assets acquired***

The starting point is to determine what assets would be recognised if the set were considered a business rather than group of assets.

Fair value of gross assets acquired (as per paragraph B7B of Ind AS 103)	CU	CU
Consideration transferred		900
Fair value of non-controlling interest (CU 900 ÷ 60% x 40%)		600
		1,500
Liabilities		300
		1,800
Cash and cash equivalents	150	
Deferred tax assets	50	
Goodwill arising from deferred tax liabilities	90 *	(290)
Fair value of gross assets acquired		**1,510**

* [{(Land: CU 400 – CU 300) + (Building: CU 1,000 – CU 800)} x 30%].

Total of fair value of gross assets acquired	CU
Land	400
Building	1,000
Equipment	100
Goodwill **(See Note 3 below)**	225
Total of fair value of gross assets acquired	**1,725**

Note 3	CU
Consideration transferred	900
Fair value of non-controlling interest (CU 900 ÷ 60% x 40%)	600
	1,500
Fair value of net identifiable assets acquired **(See Note 4 below)**	(1,275)
Goodwill	**225**

Note 4	CU	CU
Land		400
Building		1,000
Equipment		100
Cash and cash equivalents		150
Deferred tax assets		50
		1,700
Liabilities	300	
Deferred tax liabilities	125	(425)
Fair value of net identifiable assets acquired		**1,275**

Since the total of the fair value of gross assets acquired (CU 1,725) is **more** than the fair value of gross assets acquired (CU 1,510), the **fair value of the gross assets acquired is CU 1,510**.

Step 2 ***Combine the identifiable assets into a single identifiable asset***
The second step is to identify the single identifiable asset with the largest fair value.

Land and building together can be considered a single identifiable asset because they are attached and cannot be separated from one another without significant cost or diminution in the utility or the fair value of either asset. Therefore, the **largest** single identifiable asset has a **fair value of CU 1,400 (CU 400 + CU 1,000)**.

Step 3 ***Combine the identifiable assets into similar assets***
The third step is to identify the group of similar identifiable assets with the largest fair value.
None of the remaining assets qualify for combination as similar assets.

Step 4 ***Determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets***
The fourth step is the concentration test to determine when the set is not a business.

Fair value of gross assets acquired **(Step 1)**	CU 1,510
Fair value of the single identifiable asset **(Step 2)**	CU 1,400

The largest single identifiable asset has a fair value of CU 1,400 and is compared to the fair value of the gross assets acquired of CU 1,510. Since the fair value of the gross assets acquired is *substantially* concentrated in the fair value of that single identifiable asset (CU 1,400 ÷ CU 1,510 x 100 = 93% Approx.), the concentration test is determinative that the set is an asset acquisition **(ie, the concentration test is met**). Therefore, further assessment is needed.

Definition of a business

A **business** is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividend or interest) or generate other income from **ordinary activities*.**

*__Ordinary activities__ refer to the entity's *ongoing major or central operations*, which is based on how the entity attempts to fulfill its basic function in the economy of producing and distributing goods or services at prices that enable it to pay for the goods and services it uses and to provide a return to its owners.

Elements of a business

A business consists of *inputs* [1] and *processes* [2] applied to those inputs that have the ability to contribute to the creation of *outputs* [3]

[1] ***Inputs*** **are resources that contribute to the creation of outputs when processes are applied to the inputs.** Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights, and employees.

[2] ***Processes*** **are systems, standards, protocols, conventions and rules that, when applied to inputs, create or have the ability to contribute to the creation of outputs.** Processes typically include –

Strategic management processes	Operational processes	Resource management processes
• for setting the overall strategy and direction of operations, eg, the overall vision and direction of the set that contribute to the creation of outputs and obtaining customers.	• for obtaining contracts or customers or developing, fulfilling or producing outputs, eg, the fulfillment, production, development or customer acquisition processes that contribute to creating outputs.	• for obtaining inventory and managing operational employees, eg, processes involved in deploying resources such as raw materials and employees to produce outputs.

These processes typically are documented, but the intellectual capacity of an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs.

[3] ***Outputs*** **are the result of processes applied to inputs that provide goods or services to customers, investment income (such as dividend or interest) or generate other income from ordinary activities. Generally, outputs give rise to the revenue of the set.**

An acquirer need not include all the inputs or processes that the acquiree used in operating that business. If the concentration test is not met, an entity should first identify the elements in the acquired group. To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Because asset acquisitions generally include inputs, *the existence of a substantive process is what distinguishes an asset or group of assets from a business. For example, accounting, billing, payroll and other administrative systems themselves are not significant processes to create output*. This standard provides a framework to evaluate **when** an input and a substantive process are present.

If an acquired set of activities and assets has outputs, continuation of revenue (before and after the transaction) does not on its own indicate that both an input and a substantive process have been acquired. In transactions where the continuation of revenue is present, the requirement to further assess whether the process is substantive likely to reduce the number of acquired sets that meet the definition of a business. In effect, if an acquired set has only an insignificant amount of outputs (ie, revenue), it may be appropriate for an entity to evaluate the criteria for a set without outputs (discussed later) to determine whether a substantive process exists. Accordingly, assumed contractual arrangements that provide for the continuation of revenue (eg, customer contracts, customer lists, leases etc.) should be excluded from the analysis of whether a process has been acquired.

The nature of the elements of a business varies by industry and by the structure of an entity's operations (activities), including the entity's stage of development. Established businesses often have many different types of inputs, processes and outputs, whereas new businesses often have few inputs or processes and sometimes only a single output (product). Nearly all businesses also have liabilities, but a business need not have liabilities. In addition, some transferred set of assets and activities that are not a business may have liabilities.

Determining whether a particular set of activities and assets in a business shall be based on whether the integrated set is capable of being conducted and managed by a market participant. Therefore, how the seller previously managed and how the buyer intends to manage the acquired set is not relevant to the analysis. For example, if an acquirer obtains a set with operations that are similar to its own, its plan to integrate the set into its operations and use its own processes to continue the production of outputs are not relevant in the determination of whether a substantive process was acquired. Another example is that acquirer intends to split the acquired group into components, sell some of the components, and integrate the remaining ones, does not impact the determination of whether the acquired group as a whole is a business.

Assessing whether an acquired process is substantive

If the fair value of gross assets acquired is not concentrated in a single asset or **the concentration test is not met**, this standard provides guidance on how to assess whether or not an acquired process is substantive. The standard **provides a framework to evaluate when an input and a substantive process are present, differentiating between transactions with outputs and those with no outputs**.

An example of an acquired set of activities and assets that does not have outputs is a new entity that has not yet generated revenue. At the acquisition date, if the acquired set of activities and assets is generating revenue, it is considered to have outputs.

Evaluating the framework when outputs are not present

Outputs are not required for a set to be a business, but outputs generally are a very important element of a business. A set of activities and assets may include input(s) and process(s) but lack any output(s) because the acquiree is in the process of developing a product from which it expects to generate revenue in the future. Therefore, development stage enterprises that have no outputs may still be considered businesses.

An acquired process is considered substantive where –

- **the process is critical to the ability to develop or convert an acquired input(s) into output(s**); and
- **the inputs acquired include an organised workforce** that has the necessary skills, knowledge and experience to perform that process(s); and
- **other inputs that the organised workforce could develop or convert into outputs**, eg, intellectual property, other economic resources that could be developed to create outputs, or rights to obtain access to necessary materials or rights that enable the creation of future outputs. **Examples include –**

Technology

In-process research

Development projects

Real estate

Mineral interests *

*** *Mineral interests*** may include royalty interests (the holder is entitled to a share of production) or working interests (the holder bears a share of the costs of developing and operating property and is entitled to a share of its production). Generally, mineral interests are sold at property level because that is the level at which the undivided interest exists. However, mineral interests sold in a single transaction can be associated with a particular field or basin or can span various geographical regions.

Example 6

P Ltd. acquires S Ltd., that has been formed to develop a drug. The elements in the business contain both inputs [ie, an organised workforce with the necessary skills, knowledge or experience to perform the process(s)] and substantive processes (ie, operational processes for obtaining contracts or customers or developing the product).

Outputs are not required for a set to be business. Therefore, S Ltd. would be considered a business.

Example 7

P Ltd. acquires from S Ltd. a professional networking application. The acquired set of activities and assets includes a building and application equipments, but not a substantive process. The set is not producing any output, since no organised workforce is present.

Therefore, the acquired set of activities and assets is not a business, since there is no substantive process.

Evaluating the framework when outputs are present

An acquired process is considered substantive where, either the process –

- is critical in continuing to produce outputs, and the inputs include are organised workforce with the necessary skills, knowledge or experience to perform that process(s); or
- significantly contributes to the ability to continue to produce outputs and is unique or scarce or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Example 8

P Ltd. acquires S Ltd. The acquired set of activities and assets include land and a warehouse but does not include any employee or warehouse equipment.

If an acquired asset or group of assets is not accompanied by any associated processes, it is unlikely that S Ltd. would be considered a business.

Example 9

P Ltd. acquires S Ltd. that has been formed to develop a new social network app. S Ltd. has an organised workforce that has the necessary skills, knowledge and experience to perform the process. A set of activities and assets may include input(s) and process(s) but lack any output(s) because the entity is in the process of developing a product from which it expects to generate revenue in the future.

Therefore, a development stage enterprise that has no output may be considered a business.

Example 10

P Ltd. acquires from S Ltd. a number of residential quarters, (which generate continuing revenues through in-place leases) and vendor contracts for outsourced cleaning, security and maintenance (which are not unique or scarce). The acquired set does not have a substantive process, because –

- No organised workforce (with the necessary skills, knowledge or experience to perform the process) is acquired;
- In the context of generating rental income, the vendor contract for services are considered ancillary or minor, and can be replaced with little cost, effort or delay.

Therefore, it can be concluded that S Ltd. would be an asset acquisition.

Example 11

P Ltd. acquires from S Ltd. a portfolio of bonds (that generate a continuation of revenues in the form of interest) and the workforce that manages the terms and risk ratings of the bonds.

P Ltd. identifies the elements of a business in S Ltd. The set includes an input and a substantive process in the form of an organised workforce that is critical to the ability to continue to produce outputs.

Acquired Contract

An acquired contract is an input and not a substantive process, but may give access to an organised workforce (eg, **a contract for outsourced property management or outsourced asset management**). An entity needs to assess whether the organised workforce provides a substantive process that it controls. Factors to be considered in working that assessment include the duration of the contract and its renewal terms.

Difficulties in replacing an organised workforce may indicate that the acquired organised workforce performs a process that is critical to the ability to create outputs.

A process (s) is not critical if, eg, it is ancillary or minor within the context of all the process required to create outputs.

Example 12

An organised workforce that has the necessary skills, knowledge and experience to perform the process(s) must consist of employees, which could be an input, or process or both. For example, intellectual property, other economic resources that could be developed to create outputs, or rights to obtain access to necessary materials or rights that enable the creation of future outputs.

A set might include an acquired contract that provides access to an organised workforce under a contract with a third party that performs process(s) that are critical to the ability to continue to produce outputs.

In such a case, it is likely that the set includes a substantive process. Therefore, it can be concluded that it may constitute a business.

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