Course: BBA Part I
Paper: VI
Topic: Business Combination
Teacher's Name: Prof. (Dr.) Reyazuddin
School: Commerce and Management
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Business Combination

A business combination is essentially an event or transaction where an acquirer acquires control of either one or over one business. Further, a business can be defined as a set of integrated assets and activities which are capable of being managed and conducted with an intention of offering a return to the investing members or other participants, owners and members. Generally, business combinations refer to transactions in which one company gains control, or at least controlling interest, in another company. A business combination can be aptly defined as amalgamation of the assets of two or more business entities for their consolidation as a single entity under single ownership. A business combination can be managed easily through the way of a voluntary acquisition, a merger, or a hostile takeover. In many cases, a preferred means of managing a business combination might be acquiring a controlling amount of stock.
IFRS 3 *Business Combinations* is about accounting at a time when the acquirer successfully acquires control of a particular business (for example, merger or acquisition). It is these kinds of business combinations that are recognized by utilizing the 'acquisition method' that usually requires liabilities and assets that are assumed for measurement on the basis of fair value on the date of acquisition.

The main objective of business combination is to eliminate cut-throat competition and secure the advantages of large scale production. Following are the advantages of business combination.

1. Competition between and among the companies will be eliminated.

2. Amount of capital can be increased by combining business.

3. Establishment and management cost can be reduced.

4. Benefits of large scale production can be secured.

5. Operating cost can be reduced by avoiding duplication.

6. Research and development facilities are increased.

7. Monopoly in the market can be achieved.

8. Bulk purchase of materials at reduced price is possible.

9. Stability of the price of goods is maintained.

Following are the disadvantages of business combination

1. Business combination brings monopoly in the market, which may be harmful for the society.

2. The identity of the old company finishes.

3. Goodwill of the old companies decrease.

4. Management of the company becomes difficult.

5. Business combination may result in over-capitalization.