HMRC internal manual

Corporate Intangibles Research and Development Manual

From: **HM Revenue & Customs (/government/organisations/hm-revenue-customs)**

Published 11 March 2016

Updated: 10 September 2025 - **See all updates**

CIRD30537 - Intangible assets: notes on accounting practice: fair values on acquisition of a business

As noted in CIRD30535 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird30535) in FRS 102 the acquirer of a business is required to allocate the cost of the business acquisition. It does so by recognising the acquirer's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the recognition criteria. These acquired assets and liabilities must then be recognised at their fair values at the acquisition date.

Fair value is defined in FRS 102 as ‘the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arms’ length transaction’.

FRS 102 also makes it clear that in the absence of any specific guidance in the relevant section of the FRS, then the guidance in the Appendix to Section 2 Concepts and Pervasive Principles (previously paragraphs 11.27 to 11.32 of FRS 102) shall be used in determining fair value.

FRS 102 paragraphs 2A.1 to 2A.6 provide a hierarchy to estimate the fair value based on:

1. The best evidence of fair value is a quoted price for an identical asset in an active market.
2. When quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for an identical (or similar) asset in an arm’s length transaction between knowledgeable, willing parties provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place.
3. If the market for the asset is not active and any binding sale agreements or recent transactions for an identical (or similar) asset on their own are not a good estimate of fair value, an entity estimates the fair value by using another valuation technique.

See also CIRD25030 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird25030) for more detail on attributing fair values to tangible fixed assets acquired in a business acquisition.

FRS 7

FRS 7 provides specific guidance on how to determine fair values where a business has been acquired. No significant differences should arise as the actual definition of fair value is not significantly different to that under FRS 102.

IFRS 3

No significant differences should arise as the definition of fair value in IFRS 3 is not significantly different to that under FRS 102.

FRS 105

No significant differences to FRS 102. The definition of fair value refers to a hierarchy in paragraph 2.31 of FRS 105 which is similar to that in FRS 102. Intangible assets and deferred tax assets or liabilities are not however separately identified or recognised from goodwill.

Valuation of assets

Where valuation advice is required to ensure appropriate fair values are allocated to the assets acquired on the acquisition date, see CIRD10240 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird10240). In particular this may be required where additional intangible assets are separately recognised in a business acquisition as detailed in CIRD30530 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird30530).

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