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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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Published 11 March 2016

Updated: 10 September 2025 - [See all updates](#)

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CIRD30536 - Intangible assets: notes on accounting practice: acquisition of a business

As noted in CIRD30535 goodwill is only recognised under FRS 102 s19 when a business is acquired.

FRS 102 defines a business as:

An integrated set of activities and assets conducted and managed for the purpose of providing:

1. a return to investors; or
2. lower costs or other economic benefits directly and proportionately to policyholders or participants.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.

FRS 102 s19 is clear that it does not apply to the acquisition of a group of assets that does not constitute a business. Therefore if a business has not been acquired then the purchase price will be allocated to the assets acquired and no goodwill will be recognised.

IFRS 3

The definition of a business in IFRS 3 is similar to that in FRS 102 s19 above however IFRS 3 provides additional guidance on the definition of a business in Appendix B.

Appendix B confirms that the two essential elements of a business are inputs and processes and although a business usually has outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. It also confirms that determining whether a particular set of assets and activities is a business should be based on whether the integrated set is capable of being conducted and managed as a business by a market participant.

For acquisitions in accounting periods beginning on or after 1 January 2020 (early application is allowed) the IFRS 3 guidance on the definition of a business has been changed. The revised guidance confirms that 'a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs'. Additional guidance and examples are

provided to help assess whether a business has been acquired.

FRS 10

The scope of FRS 10 is clear that purchased goodwill is only recognised on acquisition of a business however there is no definition of a business in FRS 10 or elsewhere in old UK GAAP.

FRS 105

The definition of a business in FRS 105 is the same as FRS 102. FRS 105 s14 requires a micro-entity to apply FRS 102 s19 where a business has been acquired.

Under any accounting framework the question as to whether or not a business has been acquired can be judgmental and will require careful understanding of all the relevant facts. It is recommended an advisory accountant is consulted at an early stage to ensure all necessary facts are identified in order to consider application of the accounting rules.

The accounting rules will determine whether a transaction should be accounted for as a business acquisition. Identifying the scope and nature of the business acquired is a matter of fact rather than accounting.

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