

IND AS 103 – BUSINESS COMBINATION

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IND AS 110 – CONSOLIDATION

(PRACTICAL PORTION)

1. WHAT IS BUSINESS COMBINATION (Ind AS 103)

- 1) A business combination is a transaction in which the **acquirer obtains control of another business** (the acquiree).
- 2) Business in a simple language means **Net Assets and Decision-Making Process**.
- 3) Control over the business can be acquired in following ways:

Types of Acquisitions	How to Deal
Acquisition of Net Assets of another Company physically	<ul style="list-style-type: none"> • In this case, the acquiring company (Selling Co.) is liquidated. • Here, Ind AS 103 will be applicable only in the Separate Financial Statements of Acquirer (Purchaser Company). • In this case Acquirer will account for business combination in its SFS only as per IND AS 103 [no need to prepare CFS separately]
Acquisition of More than 50% Equity Shares of another Company (i.e. making Subsidiary company)	<ul style="list-style-type: none"> • Here subsidiary company is not liquidated. • In this case, acquirer company shall apply following Ind AS: <ol style="list-style-type: none"> a) Ind AS 27 in SFS of Acquirer b) Ind AS 103 for Recording Business Acquisition Transaction First Time in Consolidated Financial Statements (CFS). c) Ind AS 110 for Preparing CFS on every Balance Sheet Date.

2. HOW TO RECORD THE BUSINESS ACQUISITION TRANSACTION

(Ind AS 103)

There are two methods to record transactions of Business Acquisitions:

Method 1	Method 2
<p><u>Acquisition Method:</u> Applicable for All Types of Business Acquisitions other than Common Control Business Combination (CCBC).</p> <p>Acquisition Method means Fair Value Accounting of Net Assets Acquired</p>	<p><u>Pooling of Interest Method:</u> Applicable only in the case of Common Control Business Combination (CCBC).</p> <p>Pooling of Interest means recording the Net Assets acquired at Book Value.</p>

3. ACQUISITION METHOD (Ind AS 103)

Following Steps shall be applied for Acquisition Method:

<p>Step 1: Identify the Acquirer Company</p>	<p>Entity (or individual) who obtains the Control over business of another entity and Pays the Consideration.</p> <p><u>Exception:</u> Under Reverse Acquisition acquirer doesn't pay the consideration (will be discussed later)</p> <p>Control is defined under Ind AS 110.</p>
<p>Step 2: Determining the Acquisition date (DOA) (Refer Example 1 below)</p>	<p>The date on which acquirer obtained the Control over Business of Acquiree.</p> <p>It is generally the date on which the acquirer discharges the consideration and acquires the Net Assets. (also called agreement date)</p> <p>If any approval of regulating authority is required for business combination, then the date of obtaining approval may be considered as DOA.</p> <p><u>Non-binding letter of intent</u> signed by entities where consideration and other conditions are expected to complete in future - Do not treat it as Acquisition of Control unless conditions complied.</p>

On DOA, Acquirer must Apply Ind AS 103 for the first time and has to measure following items:

- 1) Purchase Consideration (Agreed between Acquirer and Acquiree)
- 2) Fair Value of Net Assets Acquired,
- 3) Value of Non-controlling Interest if any and
- 4) Value of Goodwill or Gain from Bargain Purchase.

<p>Step 3: Calculate Purchase Consideration (PC) on DOA</p>	<p>PC consist of anything paid or discharged to the Shareholders of Acquiree co.</p> <p>If PC is discharged to acquire more than 50% shares, then such PC shall be presented in the name of Investment A/c in SFS of Acquirer co.</p> <p>PC consist of:</p> <ul style="list-style-type: none"> • Payment in Cash immediately, • Payment in cash in future (deferred consideration) at PV • Issue of shares or debentures, • Payment of contingent consideration, • Issue of share-based payment awards to the employees of Acquiree etc. <p>(See main point no. 4 below in detail)</p>								
<p>Step 4: Calculate Fair Value of Net Assets taken over as on DOA</p>	<p>Net Assets means: Assets Taken Over at Fair Value (-) Liabilities taken over at Fair Value or Payable Value</p> <p>(See main point no. 6 below in detail)</p>								
<p>Step 5: Calculate Non-controlling Interest in Subsidiary (if any) (aka NCI)</p>	<p>NCI means outside shareholders of Acquiree company. Shares held by outside shareholders are considered here.</p> <p>NCI can be calculated in two ways:</p> <ol style="list-style-type: none"> a) Fair Value Method b) Proportion of Net Assets Method <p>NCI shall be zero if acquirer has acquired 100% shares of subsidiary.</p> <p>(See main point no. 7 below in detail)</p>								
<p>Step 6: Calculation of Goodwill (or) Gain from Bargain Purchase (Capital reserve)</p>	<table border="0"> <tr> <td>Purchase Consideration (to Acquiree)</td> <td>XXXX</td> </tr> <tr> <td>(+) NCI</td> <td>XXX</td> </tr> <tr> <td>(-) 100% Net Assets of Acquiree</td> <td>(XXXX)</td> </tr> <tr> <td>Goodwill (or) CR</td> <td>XXX</td> </tr> </table>	Purchase Consideration (to Acquiree)	XXXX	(+) NCI	XXX	(-) 100% Net Assets of Acquiree	(XXXX)	Goodwill (or) CR	XXX
Purchase Consideration (to Acquiree)	XXXX								
(+) NCI	XXX								
(-) 100% Net Assets of Acquiree	(XXXX)								
Goodwill (or) CR	XXX								

	<i>(See main point no. 8 below in detail)</i>
✂ Journal Entry on DOA (in the books of Acquirer)	Assets Taken over A/c Dr. (Fair Value)
	Goodwill A/c Dr. (bal. fig.)
	To Liabilities taken over A/c (Fair Value)
	To NCI A/c (Step 5)
	To Investment* (PC) A/c (Step 3)
	To Deferred Consideration A/c
	To Contingent Consideration A/c
	To SBP Reserve A/c (Pre Combination Period Exp)
To Capital Reserve A/c (GBP)	
	If investment a/c is already debited in SFS of Acquirer, then Investment a/c will be credited here otherwise Cash A/c or Equity Share Capital A/c

Note:

Once Ind AS 103 is applied as above, if there is a need to prepare Consolidated Financial Statements then Ind AS 110 shall be applied.

Example 1: (Date of Acquisition)

Company A acquired 80% equity interest in Company B for cash consideration. The relevant dates are as under:

✓ Date of shareholder agreement	1st April, 20X1
✓ Appointed date as per shareholder agreement	1st June, 20X1
✓ Date of obtaining control over the board representation	1st July, 20X1
✓ Date of payment of consideration	15th July, 20X1
✓ Date of transfer of shares to Company A	1st August, 20X1

In this case, as the control over financial and operating policies are acquired through obtaining board representation on 1st July, 20X1, it is this date that is considered as the acquisition date. It may be noted that the appointed date as per the agreement is not considered as the acquisition date, as the Company A did not have control over Company B as at that date.

Note: In case date of obtaining control is not given then date of payment is considered as DOA.

4. PURCHASE CONSIDERATION (Ind AS 103)

Purchase Consideration shall be calculated as under:

Cash Paid Immediately	XXX
(+) Deferred Cash at Present Value (to be paid in future)	XXX
(+) Fair Value of Equity Shares issued	XXX
(+) Fair Value of other securities issued	XXX
(+) Fair Value of Contingent Consideration	XXX
(+) Fair Value of Share Based Awards (ESOPs) granted to Acquirees' employees as replacement awards (Pre-Combination Period)	XXX
(+/-) Adjustment due to Pre-existing relationships between Acquirer & Acquiree	XXX
(Refer Example 2)	

To Calculate PC, following key points are important:

Acquisition Related Cost	<ul style="list-style-type: none"> Cost incurred by acquirer in relation to business acquisition (also known as Transaction Cost) but paid to other party (not acquiree) is not a part of PC. It shall be directly charged to Profit and Loss A/c of Acquirer. E.g. Stamp Duty, Legal Expenses, any payment to regulator of acquiree to run license. 								
Deferred Consideration (Refer Q1406 of Question Bank)	<ul style="list-style-type: none"> Cash which is committed to be paid in future is called deferred consideration. The present value of deferred cash shall be added to PC and credit shall be "Deferred Consideration Payable (liability) A/c" Journal Entry: <table style="width: 100%; border: none;"> <tr> <td style="width: 60%;">Net Assets Acquired A/c Dr.</td> <td style="text-align: right;">(at Fair Value)</td> </tr> <tr> <td style="padding-left: 20px;">To Cash A/c</td> <td style="text-align: right;">(PC in Cash)</td> </tr> <tr> <td style="padding-left: 20px;">To Equity Shares A/c</td> <td style="text-align: right;">(PC in Shares)</td> </tr> <tr> <td style="padding-left: 20px;">To Deferred Consideration Payable A/c</td> <td style="text-align: right;">(PC)</td> </tr> </table> Interest on above liability shall be calculated every year and charged to P&L of acquirer. 	Net Assets Acquired A/c Dr.	(at Fair Value)	To Cash A/c	(PC in Cash)	To Equity Shares A/c	(PC in Shares)	To Deferred Consideration Payable A/c	(PC)
Net Assets Acquired A/c Dr.	(at Fair Value)								
To Cash A/c	(PC in Cash)								
To Equity Shares A/c	(PC in Shares)								
To Deferred Consideration Payable A/c	(PC)								
Contingent Consideration	<ul style="list-style-type: none"> Any payment which is committed to be discharged on fulfilment of specified conditions in future such as obtaining specified % of NP after 2 years or specified turnover. Fair Value of Contingent Consideration as on DOA is added to PC and credit shall be "Contingent Consideration Payable A/c" as liability. Journal Entry: <table style="width: 100%; border: none;"> <tr> <td style="width: 60%;">Net Assets Acquired A/c Dr.</td> <td style="text-align: right;">(at Fair Value)</td> </tr> <tr> <td style="padding-left: 20px;">To Cash A/c</td> <td style="text-align: right;">(PC in Cash)</td> </tr> </table> 	Net Assets Acquired A/c Dr.	(at Fair Value)	To Cash A/c	(PC in Cash)				
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	<p>To Equity Shares A/c (PC in Shares) To Contingent Consideration A/c (PC)</p> <ul style="list-style-type: none"> Any change in Fair Value is transferred to Profit and Loss a/c at year end. At the time of Actual payment if there is any difference arise between amount paid and recognised liability then such difference is charged to P&L A/c If specified conditions are not fulfilled, then the liability shall be reversed through Profit and Loss A/c. If contingent consideration is payable for Employment service i.e. for being in employment after DOA then such amount shall not become part of PC and treated as Post Acquisition Expense of Acquirer (P&L).
<p>ESOP of Acquiree replaced by Acquirer (Refer Q1406 of Question Bank)</p>	<ul style="list-style-type: none"> Acquirer at the time of acquisition may replace the ESOP granted by Acquiree for its employees with New ESOP of acquirer. Such new ESOPs of acquirer are known as Replacement Awards and Acquirer shall issue Equity Shares to the Employee of Acquiree in Future. Fair Value of Replacement Awards are divided into two parts: <ul style="list-style-type: none"> Pre-combination Period Expenses Post-combination Period Expenses Pre-combination period expenses shall become part of PC and calculated as under: $\frac{\text{Fair Value of Original Awards} \times \text{Vesting Period (VP) Expired}}{\text{Higher of Original VP or New VP of Replacement Awards}}$ Journal Entry: <p>Net Assets Acquired A/c Dr. (at Fair Value) To Cash A/c (PC in Cash) To Equity Shares A/c (PC in Shares) To SBP Reserves A/c (PC - Pre-Combination Period)</p>
<p>Adjustment of Pre-existing relationship between acquirer and acquiree</p>	<ul style="list-style-type: none"> Any Settlement (also called compensation) amount payable or receivable by acquirer to/from acquiree shall be calculated first. Such settlement amount may be included in PC The effect of settlement amount shall be eliminated from PC <p>(Read the Main Point no. 5 for more detail)</p>

Example 2: (Purchase Consideration)

B Ltd. has 1,00,000 no. of equity shares outstanding

A Ltd. acquired 72,000 equity shares of B Ltd. (FV per share of B Ltd. is 36/-)

Consideration would be discharged in the form of cash of Rs. 5,00,000 immediately & one Equity Share of A Ltd. for Every two shares acquired (FV per share of A= 60/-)

In addition to above, A Ltd. will pay 6,00,000/- in cash after 1 year (Cost of Capital is 10%) Calculate Purchase Consideration as on Date of Acquisition

Solution:**Calculation of Purchase Consideration**

Consideration in form of	Amount
1) Equity shares of A Ltd (72,000/2 x 1) x 60/-	21,60,000
2) Cash Immediate	5,00,000
3) Deferred Cash at PV 6,00,000/1.1	5,45,455
Purchase Consideration	32,05,455

SFS of A Ltd: (Journal Entry for A Ltd)		
DOA= Investment in B Ltd	Dr.	32,05,455
To Bank A/c		5,00,000
To ESC and SP A/c		21,60,000
To Def. Cash Payable A/c		5,45,455

After 1 Year: (5,45,455 X 10%) = 54,545/-

a)	Interest Cost A/c (P&L)	Dr.	54,545	
	To Def. Cash Payable A/c			54,545
b)	Def. Cash Payable A/c	Dr.	6,00,000	
	To Bank A/c			6,00,000

5. PRE-EXISTING RELATIONSHIP BETWEEN ACQUIRER AND ACQUIREE (Ind AS 103)

There can be two types of relationships:

1) Non-contractual Relationship:

- i) **Example** - Law Suit filed by acquirer on acquiree or vice versa
- ii) Acquirer and Acquiree agreed to **settle this law suit** due to business combination by paying/receiving compensation.
- iii) Above **compensation shall not become part of Purchase Consideration**. It is to be recognized separately as under in the books of Acquirer:

Compensation Receivable	Compensation Payable
Compensation Receivable A/c Dr. To Gain (P&L) A/c	Loss (P&L) A/c Dr. To Compensation Payable A/c

(Refer Example 3 below)

(Refer Example 4 below)

- iv) If any receivable/payable is shown in Books of Acquiree then it shall not become part of Net Assets to be acquired and recorded on DOA.

2) Contractual Relationships: (Refer Example 5 below)

- i. **Example** - Required Rights (i.e. Franchise rights given by Acquirer to Acquiree prior to date of acquisition)
- ii. On date of Acquisition, acquirer shall recognise:
 - a) "Required Rights" as a **Separate Identifiable Intangible Asset** apart from other Net Assets Acquired at Fair Value.
 - b) "Loss on Cancellation of Rights" at Lower of: -
 - Penalty Payable as per Contractual Terms; or
 - Difference between Fair Value of Franchise & Proportionate Value of Contract.
- iii. This loss on cancellation is deducted from PC and Recognised as Separate Liability as under:

Loss on Cancellation (P&L) A/c Dr.
To Penalty Payable A/c

Example 3: (Pre-Existing Relations)

Aakash Ltd. is Sued by Subhash Ltd. for a legal claim of Rs. 10 Lacs for a use of Trademark of Subhash Ltd. Aakash Ltd. has made provision for penalty payable of Rs. 6 Lacs. However Subhash Ltd. has not recognized any receivable for penalty.

After 1 year (Case is not yet settled), Subhash Ltd. acquired control over Aakash for a Consideration of Rs. 62 Lacs (net of above penalty claim).

Fair Value of Claim on Date of Acquisition is Rs. 10 Lacs

Fair Value of Net Assets Acquired of Aakash Ltd. is Rs. 70 Lacs.

Assume NCI is Nil. Calculate Goodwill or Gain from Bargain Purchase.

Golden Rule: PC should be kept separate from Pre-existing Relationships (PER). PC Should not include the effect of pre-existing Relationship. PER should be recog. separately at Fair Value on DOA.

Gross PC for Acquiring Control = 62 + 10 = 72

Journal Entries in the Books of subhash Ltd.

1) Compensation Receivable Dr. To Gain (P&I)	10	10
2) Net Asset Dr. Goodwill Dr. To Consideration Payable A/c	70 2	72
3) Consideration payable A/c To Compensation Receivable A/c To Bank / Cash	72	10 62

Example 4: (Pre-Existing Relations)

Consider above Example 3 with following changes:

- i) Now Subhash Ltd. is being sued by Aakash Ltd.
- ii) Gross Final Consideration Payable by Subhash Ltd. towards acquisition of business is Rs. 85 Lacs
- iii) Both Companies have not passed any entry of Payable or receivable of penalty in their books.

Solution

Actual Consideration to world acquiring Control = 85 - 10 = 75 Lacs.

1) Loss (P&I) A/c Dr. To Compensation Payable A/c	10	10
2) Net Assets A/c Dr. Goodwill Dr. (b/f) To Consideration Payable A/c	70 5	75
3) Consideration Payable A/c Dr. Compensation Payable A/c Dr. To Bank A/c	75 10	85

Example 5: (Pre-Existing Relations)

V'Smart Academy Pune provided franchise rights for 10 years to Kolkata based Coaching Center for Rs. 10 Lacs. Penalty clause as per the contract due to cancellation of Franchise is 110% of remaining period of proportionate franchise fees.

After two years, Vsmart acquired Kolkata center at a consideration of Rs. 60 Lacs (Including Penalty). Fair Value of Net Assets of Kolkata is Rs. 40 Lacs (other than Franchise Rights).

Fair Value of Franchise Rights as on DOA is Rs. 15 Lacs.

Solution:

- 1) Proportionate Value of Contract = $10/10 \times 8 = 8$ Lacs.
- 2) Penalty as per Contract = 8 Lacs + 10% = 8.8 Lacs.
- 3) Fair Value of Reacquired Rights = 15 Lacs.
- 4) Differences Between FV & Prop. Value of Contract = 7 Lacs. (15 - 8)
- 5) Lower will 7 Lacs. Payable which is recognised as penalty
- 6) PC for control acquisition = 60 - 7 = 53 Lacs.

DOA (Journal entry)

1) Loss as Cancellation (P&I) A/c Dr. To Penalty Payable A/c	7	7
2) Net Assets a/c Dr. Re-Acquired Rights a/c Dr. To Consideration Payable A/c To GBP (OCI - CR) A/c	40 15	53 2
3) Penalty Payable Dr. Consideration Payable Dr. To Bank a/c	7 53	60

6. NET ASSETS OF ACQUIREE (Ind AS 103)

- Identify the Net Assets of Acquiree company taken over by Acquirer company.
- All Assets and Liabilities taken over are **measured at Fair Value** as on Date of Acquisition (DOA).
- Identifiable Net Assets can be calculated as under:

Approach 1: Assets less Liabilities

All Assets as per B/s of Acquiree which fulfills the recognition criteria for Acquirer (except Non-current assets HFS)	At Fair Value
(+) Assets which are not shown in B/s of Acquiree but fulfills recognition criteria for Acquirer	At Fair Value
(+) Non-Current Assets Held for Sale (HFS)	At Lower or CA or FVLCTS
(-) All Liabilities as per B/s of Acquiree which fulfills the recognition criteria for Acquirer	At Fair Value
(-) Contingent Liability of Acquiree accepted by Acquirer	At Fair Value
(-) DBO liability	as per Ind AS 19
(+) Indemnification Asset Promised by Acquiree to Acquirer on above liabilities	At Fair Value
(+) Reacquired Rights (as per Pre-existing relationships)	At Fair Value
(+) In process Research Project of Acquiree	At Fair Value
(+/-) DTA/DTL arising due to Net Assets taken over at Fair Value (Fair Value is different from Tax Base) including DTA/DTL already appeared in B/s of Acquiree	As per Ind AS 12



Approach 2: Equity + Other Equity

Equity Share Capital of Subsidiary Co. (Acquiree Co.)	
(+/-) Balance of Reserves (Other Equity) of Subsidiary Co. as on DOA	
(+/-) Assets liabilities not shown in Acquiree's Books but recognised by Acquirer	
(+/-) Fair Value Adjustments (Revaluations of Net Assets) as on DOA (discussed in detail in the next page)	
(-) Contingent Liabilities of Acquiree taken over	

(+)	Indemnification Asset Promised by Acquiree to Acquirer on above liabilities	
(+)	Reacquired Rights (as per Pre-existing relationships)	
(+)	In process Research Project of Acquiree at Fair Value	
(+/-)	DTA/DTL arising due to Net Assets taken over at Fair Value as on DOA	

- **Contingent Liabilities of Acquiree:** Contingent Liabilities of acquiree shall be recognised by Acquirer only when such liability is created **due to present obligation** even though the outflow of economic benefits is not probable to occur. (Ignore Contingent liabilities arising due to possible obligation)
- **Indemnification assets** - The acquiree in a business combination may contractually indemnify the acquirer **for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability**. The acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis, subject to the certainty of collection. **(Record Indemnification Asset only if related Liability is also Recorded)**
- **Share based payments (ESOPs or Cash Liability)** - Principles of INDAS 102 shall be applicable to recognise Share based payment related reserves and liabilities.

(Refer 700 Series of FR Question Bank)

Example 6: (FV of Net Asset)**Balance Sheet of Acquiree as on 31/3/23**

Particular	Amt
PPE	80,00,000
Current Asset	30,00,000
	1,10,00,000
Equity share capital	40,00,000
Other Equity	35,00,000
Liability	35,00,000
	1,10,00,000

- Date of Acquisition is 31/3/23. Tax Rate is 30%
- FV of PPE on DOA is 90 lakhs, CA in CFS

Calculate FV of Net Assets

Solution:**Approach 1-**

Particular	Amt
PPE	90,00,000
(+) Current Asset	30,00,000
(-) Liabilities	(35,00,000)
(-) DTL on Business Combination	3,00,000
FV of Net Assets	82,00,000

Approach 2-**Statement of Net Assets/Equity: -**

Particular	Amt
Equity Share Capital	40,00,000
Other Equity	35,00,000
+ Revaluation Gain	10,00,000
(-) Revaluation Surplus due to DTL	(3,00,000)
FV of Net Assets	82,00,000

7. NON-CONTROLLING INTEREST (Ind AS 103)

- a) **Meaning** - The Equity in a Subsidiary not acquired directly or indirectly by the Parent company. (i.e. when parent owns less than 100% of the equity of acquiree)
- b) **Presentation of NCI** - Separately in the Equity head of Balance sheet under Consolidated Financial Statements.
- c) **Measurement of NCI** - NCI is measured as per the following methods:
- (i) Fair Value Method
 - (ii) Proportionate Share of Net Assets Method

Method 1 - Fair value of shares held by NCI

Fair value will be either given in the question or it needs to be calculated as under:

Option 1: Fair Value Per Share of Acquiree (Subsidiary) \times No. of Shares held by NCI

Option 2:

Purchase Consideration discharged by Acquirer (Investments made by Acquirer) \times $\frac{\text{NCI \%}}{\text{\% held by Acquirer}}$

Note: Always apply "Option 2" only when Fair Value per share of Acquiree is not given.

Example: A Ltd. acquired 60% Shares of B Ltd. Total outstanding shares of B Ltd. are 5,00,000 no. Market Price per share of B Ltd. is 250/- per share.

$$\text{NCI} = 5,00,000 \times 40\% \times 250/- = \text{Rs. 5 Crores}$$

Example: A Limited acquires 80% shares of B Limited whose Net Assets fair value is Rs 140.00 crores by payment in cash of Rs. 120.00 crores. The value of non-controlling interest is Rs 30 crores.

$$\text{NCI} = 120/80\% \times 20\% = 30 \text{ Crores}$$

Method 2 - "Proportionate Share in Net Assets" method

How to Calculate: Fair Value of Net Assets of Acquiree as on DOA \times NCI %

Continuing with the above example in method 1 -

Assume that the value of recognized amount of subsidiary Rs. identifiable net assets is Rs 140.00 crores, as determined in accordance with Ind AS 103. The value of non-controlling interest is Rs 28.00 crores (i.e. Rs 140 crores \times 20%).

Note: Always apply Fair Value Method if MP of Share of Acquiree is given in the question.

d) Types of NCI -

<u>Meaning</u>	<u>Qualifying NCI</u>	<u>Non-Qualifying NCI</u>
	Present ownership interest and entitles its holders to a proportionate share in the Net Assets	All other components of NCI
<u>Examples</u>	Ordinary Equity Shares Preference Shares entitled to a <i>pro-rata</i> share of net asset upon liquidation	Equity component of convertible debt and other compound financial instruments Share warrants Options under Share based payments
<u>Measurement of NCI</u>	Option 1 - At the Fair Value of the NCI Option 2 - Proportionate share of Net Assets acquired	At Fair Value only unless another measurement basis is required by Ind-AS. Eg. SBP options of NCI are measured as per Ind AS 102

e) Negative NCI - NCI can be negative also when Net Assets acquired are negative (i.e. Assets are less and Liabilities are more)

(Refer Practical Example No. 1 for more clarity) (Also Refer 500 Series of Question Bank)

8. CALCULATION OF GOODWILL OR GAIN ON BARGAIN PURCHASE

(Ind AS 103)

Goodwill or Gain from Bargain Purchase shall be calculated as under:

Cost of Investments (Purchase Consideration Discharged)	XXXX
Add: Fair Value of Previous Equity Interest as on DOA held by Acquirer (in case of step Acquisition)	XXXX
Add: Non-Controlling Interest as per above two methods	XXXX
Less: 100% Net Assets of acquiree at Fair Value as on DOA	XXXX
Goodwill or Gain from Bargain Purchase (Capital Reserve)	XXXX

Gain on Bargain Purchase - Ind AS 103 requires that the bargain purchase gain should be recognised in OCI and accumulated in equity as capital reserve.

If there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, then it should be recognised directly in equity as capital reserve.

Goodwill -

- (i) Goodwill shall be presented in the Consolidated Balance Sheet separately from Other Intangible Assets.

- (ii) If goodwill is calculated by using the **Fair Value method of NCI** then such goodwill is called **Full Goodwill**.
- (iii) If goodwill is calculated by using **Proportionate share of Net Assets method of NCI**, then such goodwill is called **Partial Goodwill**.
- (iv) Goodwill is not allowed to be amortised but subject to annual impairment testing as per Ind AS 36

Carve Out - IFRS 3 requires entity to recognise Gain on Bargain Purchase directly to Statement of Profit and Loss.

(Refer Practical Example No. 1 for more clarity) (Also Refer 500 Series of Question Bank)

MEASUREMENT PERIOD -

- (i) If all the required information to calculate Net Assets is **not available on date of acquisition (DOA)** then Goodwill or Gain from bargain purchase can be **calculated on provisional basis** until the complete information is received.
- (ii) When **new information is received (within 1 year)** regarding fair value of Asset and Liabilities as on DOA and **such information reflects the facts and circumstances existing on DOA**, then it is allowed to make the **required changes in the calculation of Net Assets and NCI as on DOA**.
- (iii) Required changes means change in the value of recognised Assets and Liabilities or recognizing new Assets or Liabilities or derecognizing existing Assets or Liabilities.
- (iv) Any **difference** due to such changes are **adjusted in Goodwill/GBP**.
- (v) However, **after the measurement period ends**, any change in the value of assets and liabilities due to an information which existed on the valuation date will be accounted as an error as per Ind AS 8, Accounting policies, Changes in Accounting Estimates and Errors.

(Refer Q805 of FR Question Bank)

9. CONTROL OBTAINED WITHOUT THE TRANSFER OF CONSIDERATION (Ind AS 103)

- 1) The acquirer and acquiree agree to combine their businesses **by contract** alone.
- 2) For example, A Ltd. gets control over the business of B Ltd. through the agreement.
- 3) In such a case, **A Ltd. has not paid any consideration nor holds any equity interest** in B Ltd.
- 4) However, **A Ltd. takes all major decisions** of B Ltd.
- 5) Here, A Ltd. is treated as Acquirer and B Ltd. is treated as Acquiree.
- 6) Goodwill or Gain from bargain purchase shall be calculated as under:

Purchase Consideration	Nil
(+) Non-Controlling Interest (100%)	XXX
Fair Value of the Shares of B Ltd.	
(-) Fair Value of Net Assets of Acquiree Company	XXX
Goodwill or GBP (Capital Reserve)	XXX

Such kind of business combinations which are achieved by contract alone are also called as

- "Bringing two businesses together in a **stapling arrangement**" or
- "Forming a **dual listed corporation**" (Refer Q511 of Question Bank)

Example 7:

A Ltd. obtained control over B Ltd. by contract alone. There is no stake in B Ltd. held by A Ltd. However, board members of B Ltd. consist of 5 Directors out of which 4 belongs to A Ltd. Fair Value of B Ltd. is Rs. 50 Lacs and FV of Net Assets of B Ltd. is 46 Lacs.

Solution:

A Ltd. is Acquirer. NCI has 100% Sharing with No Control. Hence NCI as per FV method is 50 Lacs. Purchase Consideration is Zero. Hence Goodwill is Rs. 4 Lacs.

10. CONSOLIDATION PROCESS (Ind AS 110)

- 1) **On Date of Acquisition (DOA):** Ind AS 103 is applied as discussed above.
- 2) **On Balance Sheet Date:** For the purpose of Consolidation, we have to follow Ind AS 110.
- 3) As per Ind AS 110, All Assets and Liabilities (as discussed earlier) of subsidiary company are consolidated with Holding company. (i.e. **100% Net Assets are recognised** even though holding has less than 100% sharing)
- 4) **NCI:** We have already discussed that NCI is required to be calculated on DOA, we must **remeasure the NCI as on Balance Sheet**.
- 5) Following workings are required for preparing Consolidated Balance Sheet:
 - a) Statement of Changes in Net Assets (SCNA) also called Analysis of Reserves of Subsidiary.
 - b) Calculation of Revised NCI as on Balance Sheet
 - c) Calculation of Consolidated Other Equity of Group (Also called Group Reserves)
- 6) **Statement of Changes in Net Assets:**
 - (i) We need Net Assets of Subsidiary as on DOA for the purpose of calculation of Goodwill or Gain from bargain purchase.
 - (ii) **Net Assets as on DOA = Equity Share Capital + Pre-Acquisition Profits**
 - (iii) We also require the Post Acquisition changes in subsidiary to prepare the Consolidated Balance Sheet.
 - (iv) Pre and Post Acquisition Profits can be found out with the help of below working:

	Particulars	Net Assets as on DOA	Changes during the period	Total Balance as on CFS date
	Balance of other equity (profits) of Subsidiary			
+/-	Bonus Issue	(XXX) always	+ XXX Only if entry is passed	
+/-	Abnormal Items; Non-recurring items or Errors	-	XXX	

(+)	Equity or Preference Dividend paid during the year (or) Eq. or Pref. Dividend declared in CY & Entry Passed.	-	XXX	
=	Balances	XXX	XXX	
+/-	Time Adjustment (assume profit during the year is equal every month) **Time adjustment is made for Normal Profit after Tax before any appropriation like dividend, Bonus etc	XXX	XXX	
=	Balances after Time Adjustment	XXX	XXX	
+/-	Restate Abnormal Items	XX	XX	
(-)	Pref. Dividend by Subsidiary	XX	XX	
+/-	Revaluation of Assets/Liabilities along with Depreciation Effect	XXX	XXX	
+/-	DTA/DTL on above Revaluation & Dep.	XX	XX	
(-)	Elimination of Unrealized Profit & DTA thereof on Upstream Transaction	-	XX	
(-)	Additional Depreciation on Sale of PPE by Parent to Subsidiary on Unrealised Profit Portion	-	XX	
	Final Balances of Profits	Pre-Acquisition Profit	Post Acquisition Profit	
(+)	Equity Share Capital of Subsidiary (after Bonus issue always)	XXX	-	
	100% Net Assets of Subsidiary as on DOA	XXX	-	
	Bifurcation of Post Acquisition Profit in Holding and NCI	-	H's Share NCI's Share	

(Refer Practical Example 2)

7) Revised NCI as on Balance Sheet:

NCI as on Date of Acquisition (either FV method or Proportion of Net Assets Method)	XXX
(+/-) Share of NCI in Post Acquisition Profit/loss of Subsidiary (calculated from SCNA)	XXX
(-) Share of NCI in Dividend paid by subsidiary	XXX
(-) Share of NCI in Impairment Loss of Goodwill	XXX

(if there is Full Goodwill and it is impaired in question)	
(-) NCI's Share in Investment by S1 in S2 (Chain Holding)	XXX
Balance of NCI as on Balance Sheet Date	XXX

8) Calculation of Consolidated Other Equity of Group (Also called Group Reserves):

Particulars	Retained Earnings (P&L)	Other Reserves	Total
Reserves of Parent Company as per its SFS	XXXX	XXX	XXXX
(+/-) Rectification of Error if Any in Parent's P&L	XXX	-	XXX
(+/-) Share of Parent in Post Acquisition Profit/loss or OCI of Subsidiary. (Calculated from SCNA)	XXX	XX	XXX
(-) Share of Parent in Dividend Paid by Subsidiary	XX	-	XX
(+/-) Fair Value Gain/loss on Previous Investment (Step Acquisition)	XX	-	XX
(-) Elimination of Unrealised Profit in Downstream transaction	XX	-	XX
(+) Additional Dep. on Unrealised profit portion on upstream transaction of Sale of PPE	XX	-	XX
(-) Share of Parent in Goodwill Impairment if any	XX	-	XX
(+) Preference Dividend Share from Subsidiary Receivable if any	XX	-	XX
(+/-) Gain/Loss on Settlement of Investment in Debentures of Subsidiary (on cancellation of common debt portion)	XX	-	XX
(+/-) Gain/loss due to change in % of holding & change in NCI (without loss of control) Transfer to Separate Component of Equity)	-	XX	XX
(+/-) Gain/loss due to loss of control on sale of any subsidiary (charged to P&L)	XX	-	XX
(+/-) Any other Adjustment	XX	XX	XX
TOTAL			

12. TREATMENT OF DIVIDEND (Ind AS 110)

1) Journal Entry of Dividend Declared and Paid by Subsidiary Co.:

Dividend Declaration	Dividend Payment
Profit and Loss A/c Dr. To Dividend Payable A/c	Dividend Payable A/c Dr. To Bank A/c

2) Holding Company is eligible for receipt of Dividend only if such dividend is paid by subsidiary **after** the date of acquisition.

3) Follow this guidance for treatment of Dividend:

<p>Under AOP & Statement of Changes in Net Assets</p>	<ul style="list-style-type: none"> Add back in the statement of Net Assets (in Post acquisition column). Deduct the proportionate dividend directly from Consolidated Profit/loss of Grp and remaining dividend directly from NCI. When dividend is paid before DOA then deduct the dividend directly from Pre-acquisition Column.
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(Refer Practical Example No. 6, 7 & 8) (Also Refer 600 Series of Question Bank)

13. FAIR VALUE OF IDENTIFIABLE NET ASSETS (REVALUATION)

(Ind AS 110)

- 1) Net Assets shall be recognised **at Fair Value**.
- 2) But the formula of Net Assets is "Equity Share Capital + Other Equity".
- 3) This **formula covers the book value** of Net Assets only.
- 4) To find out fair value of Net Assets follow these steps:

Step 1	<p><u>Calculate Revaluation Gain/Loss as on Date of Acquisition:</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Fair Value of Asset/liability as on DOA</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>(-) Book Value of Asset/liability as on DOA</td> <td style="text-align: right;"><u>XXX</u></td> </tr> <tr> <td>Revaluation Gain/Loss (for Pre-Acquisition Column)</td> <td style="text-align: right;">XXX</td> </tr> </table>	Fair Value of Asset/liability as on DOA	XXX	(-) Book Value of Asset/liability as on DOA	<u>XXX</u>	Revaluation Gain/Loss (for Pre-Acquisition Column)	XXX
Fair Value of Asset/liability as on DOA	XXX						
(-) Book Value of Asset/liability as on DOA	<u>XXX</u>						
Revaluation Gain/Loss (for Pre-Acquisition Column)	XXX						
Step 2	Calculate DTA/DTL effect on above Revaluation Gain/loss and adjust Pre-acquisition column						
Step 3	<p><u>Calculation Additional Depreciation or Saving in Depreciation due to Revaluation of Assets:</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Dep. on FV of Asset for Post Acquisition Period</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>(-) Actual Dep. Charged by Subsd. for Post Period</td> <td style="text-align: right;"><u>XXX</u></td> </tr> <tr> <td>Additional Dep./ (Saving in Dep.)</td> <td style="text-align: right;">XXX</td> </tr> </table>	Dep. on FV of Asset for Post Acquisition Period	XXX	(-) Actual Dep. Charged by Subsd. for Post Period	<u>XXX</u>	Additional Dep./ (Saving in Dep.)	XXX
Dep. on FV of Asset for Post Acquisition Period	XXX						
(-) Actual Dep. Charged by Subsd. for Post Period	<u>XXX</u>						
Additional Dep./ (Saving in Dep.)	XXX						
Step 4	Calculate DTA/DTL effect on above Additional Dep. or Saving in Dep. and adjust Post acquisition column.						

Step 5	Under Consolidated Financial Statement:	
	Carrying Amount of Asset/Liability of Subsidiary	XXX
	(+/-) Revaluation Gain/loss	XXX
	(+/-) Additional Dep. or Saving in Dep.	<u>XXX</u>
	Fair Value of Net Assets as on BS date	XXX

Note: All these Steps are to be followed after "Time Adjustment" in Analysis of Profit or Statement of Changes in Net Assets.

(Refer Practical Example No. 9 & 10)

14. UNREALISED PROFIT/LOSS ON INTRO GROUP TRANSACTION (Ind AS 110)

- 1) Intra group transaction means transaction between Holding company and Subsidiary company for Sale Purchase of Goods or Assets.
- 2) If Such transaction occurs other than at Cost then profit/loss element is required to be eliminated in Consolidated Financial Statement.
- 3) How to Eliminate the unrealized profit/loss:

Sale/Purchase of Inventory (Goods)	
Unrealized Profit/loss = Sales Value of Unsold Good (-) Actual Cost of Unsold Goods	
Downstream Transaction (Goods sold by Holding to Subsidiary)	Upstream Transaction (Goods sold by Subsidiary to Holding)
<ul style="list-style-type: none"> ➤ Profit is earned by Holding company ➤ Eliminate unrealized profit from: <ul style="list-style-type: none"> ● Consolidated Retained Earnings of Group; & ● Balance Sheet Inventory Value ➤ Recognise DTA on elimination of unrealized Profit as under: <ul style="list-style-type: none"> ● Consolidated Balance Sheet; & ● Consolidated R/E of Group 	<ul style="list-style-type: none"> ➤ Profit is earned by Subsidiary company ➤ Eliminate unrealized profit from: <ul style="list-style-type: none"> ● Post Acquisition Column of Statement of Changes in Net Assets; & ● Balance Sheet Inventory Value ➤ Recognise DTA on elimination of unrealized Profit as under: <ul style="list-style-type: none"> ● Consolidated Balance Sheet; & ● Post Acquisition Column of SCNA

Sale/Purchase of PPE	
Unrealized Profit/loss = Sales Value of PPE (-) Carrying Amt. of PPE on date of sale	
Downstream Transaction (PPE sold by Holding to Subsidiary)	Upstream Transaction (PPE sold by Subsidiary to Holding)
<ul style="list-style-type: none"> ➤ Profit is earned by Holding company ➤ Eliminate unrealized profit from: <ul style="list-style-type: none"> ● Consolidated Retained Earnings of Group; & ● Balance Sheet PPE Value 	<ul style="list-style-type: none"> ➤ Profit is earned by Subsidiary company ➤ Eliminate unrealized profit from: <ul style="list-style-type: none"> ● Post Acquisition Column of Statement of Changes in Net Assets (SCNA); & ● Balance Sheet PPE Value

- Recognise DTA on elimination of unrealized Profit as under:
- Consolidated Balance Sheet; &
 - Consolidated R/E of Group

Here, subsidiary would have charged depreciation on total sale value, in that case additional depreciation on unrealized profit portion should be eliminated as under:

- Add Post Acquisition Profit of Subsidiary in Statement of Changes in Net Assets; &
- Add PPE Value in Consolidated Balance Sheet

- Recognise DTA on elimination of unrealized Profit as under:
- Consolidated Balance Sheet; &
 - Post Acquisition Column of SCNA

Here, holding co. would have charged depreciation on total sale value, in that case additional depreciation on unrealized profit portion should be eliminated as under:

- Add Consolidated R/E of Group; &
- Add PPE Value in Consolidated Balance Sheet

Note:

Calculation of Additional Depreciation on unrealized profit portion:

Depreciation on Total Transaction Value of PPE sold	XXX
(-) Depreciation on Carrying Value for Seller	XXX
Additional Depreciation on Unrealised Profit Portion	XXX

Example 8: (Unrealised Profit on Sale of PPE)

A Ltd. (which is involved in the business of selling capital equipment) a parent company sold a capital equipment costing ₹100 lakh to its 80% subsidiary B Ltd. At ₹120 lakh. The capital equipment is recorded as PPE by B Ltd. The useful life of the PPE on the date of transfer was 10 years. Show the necessary adjustment in the consolidated financial statements (CFS).

SOLUTION:

A Ltd. shall reduce the value of PPE of ₹120 lakh of B Ltd., by ₹20 lakh in CFS This will increase expenses and reduce consolidated profit by ₹20 lakh. Further, A Ltd. should also reduce the depreciation charge of B Ltd. to the extent of value of PPE reduced as above. Hence, A Ltd. should reduce the depreciation by ₹2 lakh (₹20 lakh ÷ 10 years). Further, the sales and cost of goods sold recorded by parent A Ltd. shall also be eliminated.

The double entry on consolidation is as follows:

		₹in lakhs	
		Dr.	Cr.
Consolidated revenue	Dr.	120	
To Cost of sales			100
To PPE			18
To Depreciation			2

Alternative Journal Entry for above transaction based on BS approach:

		₹in lakhs	
		Dr.	Cr.
Consolidated P&L of A Ltd.	Dr.	20	
To PPE A/c			18
To Consolidated P&L of A Ltd. A/c			1.6
To NCI A/c			0.4

(Refer 900 Series of Question Bank)

15. STEP ACQUISITIONS (Ind AS 103)

- 1) Step Acquisition means acquiring equity interest in subsidiary **at various different dates** let's say acquired first time in the year 20X1 @ 20% then acquired another 40% in the year 20X2. In this case, CONTROL is meant to be acquired in the year 20X2.
- 2) Consolidation begins **only from the date of obtaining control**.
- 3) **Investments held before obtaining control (Previous Equity interest held) must be revalued at Fair value as on DOA.**
- 4) Gain or Loss due to above revaluation is transferred to **Consolidated P&L** of Group.
- 5) How to Calculate FV of Previous Investments?

First Preference - FV will be provided in the question

Second Preference - Compute FV based on Price per share paid by Parent in its latest acquisition (i.e. on DOA of Control)

$$\text{Purchase Consideration discharged by Acquirer} \times \frac{\text{Previous Holding \%}}{\text{Newly Acquired \% by Acquirer}}$$

6) Journal Entry:

Revalue the Previously held Investment at Fair Value (in CFS)	Investment A/c Dr. To Gain (Cons. P&L) A/c Loss P&L A/c Dr. To Investment A/c
Recognizing Net Assets, NCI and Goodwill/CR as on DOA	Net Assets (100%) Dr. (at Fair Value) Goodwill A/c Dr. To NCI A/c To Bank A/c (Paid on Further Acquisition) To Investment A/c (at Fair Value)

7) Previous Investment held by Acquirer is 20% or More i.e. Acquiree is Associate Co. before obtaining Control:

Investment before obtaining Control 20% or More in Acquiree (also called Associate Co.)	Equity Method must have been applied in CFS on such Investment as Under:						
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Cost of Investment</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>(+) Share of Post Acquisition P&L</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>(+) Share in Post Acquisition OCI</td> <td style="text-align: right;">XXX</td> </tr> </table>	Cost of Investment	XXX	(+) Share of Post Acquisition P&L	XXX	(+) Share in Post Acquisition OCI	XXX
Cost of Investment	XXX						
(+) Share of Post Acquisition P&L	XXX						
(+) Share in Post Acquisition OCI	XXX						

	<p>Value of Investments (in CFS) XXX</p> <p>Journal Entry: Investment A/c Dr. To Consolidated P&L A/c To Consolidated OCI A/C</p>														
<p>Subsequently when Associate is converted in Subsidiary due to further acquisition</p>	<p>1) Equity Method will be discontinued and Ind AS 103 shall be followed.</p> <p>2) Follow Step Acquisition Method and Measure previous Investment in Associates at FV as on DOA.</p> <p>3) Any Accumulated Balances in OCI shall be treated as Follows:</p> <ul style="list-style-type: none"> • Balance of OCI to the extent allowed as reclassified shall be transferred to Consolidated P&L A/c • Balance of OCI to the Extent not allowed to be reclassified - shall be directly transferred to retained earnings in CFS. <p>Journal Entry as on Date of Acquisition of Control:</p> <table> <tr> <td>Net Asset A/c</td> <td>Dr. (At Fair Value)</td> </tr> <tr> <td>Consolidated OCI A/c</td> <td>Dr. (Reversal)</td> </tr> <tr> <td>Goodwill / GBP A/c</td> <td>Dr.</td> </tr> <tr> <td> To Bank A/c</td> <td>(Paid on Further Acquisition)</td> </tr> <tr> <td> To Investment A/c</td> <td>(Previous Investment)</td> </tr> <tr> <td> To Retained Earnings A/c</td> <td>(Conso. OCI Bal.)</td> </tr> <tr> <td> To Consolidated P&L A/c</td> <td>(balancing Fig.)</td> </tr> </table>	Net Asset A/c	Dr. (At Fair Value)	Consolidated OCI A/c	Dr. (Reversal)	Goodwill / GBP A/c	Dr.	To Bank A/c	(Paid on Further Acquisition)	To Investment A/c	(Previous Investment)	To Retained Earnings A/c	(Conso. OCI Bal.)	To Consolidated P&L A/c	(balancing Fig.)
Net Asset A/c	Dr. (At Fair Value)														
Consolidated OCI A/c	Dr. (Reversal)														
Goodwill / GBP A/c	Dr.														
To Bank A/c	(Paid on Further Acquisition)														
To Investment A/c	(Previous Investment)														
To Retained Earnings A/c	(Conso. OCI Bal.)														
To Consolidated P&L A/c	(balancing Fig.)														

Example 9: (Step Acquisition)

Invested 15% in Equity of B Ltd on 1/4/22 @ 5,00,000/-

Total Equity Shares outstanding of B Ltd. is 1,00,000 No.

Invested another 45% in equity of B Ltd on 1/4/23 @25,00,000/-

Market Value of Share of B Ltd. on 1/4/23 is 50/-

100% Net Assets Fair Value of B Ltd.

1/4/22 = 50,00,000

1/4/23 = 60,00,000

NCI Should be at Fair Value

Calculate COC & also discuss treatment of 15% Investment in CFS.

(Parent Follows Cost model under INDAS 27)

Solution:

Date of Acquisition = 1/4/23

Cost of Control:

Investment (PC)	
1/4/23 - 45 % Equity	25,00,000
	7,50,000
1/4/22 - 15% Equity (15,000 × 50)	32,50,000
+ NCI as on DOA (40,000 × 50/-)	20,00,000
(-) 100% Net Assets	(60,00,000)
Gain on Bargain Purchase	7,50,000

While calculating GBP as above, we have remeasured 15% Investment @7,50,000 (i.e., FV Gain of 2,50,000). Its second effect should be credited to P&L of parent & to be reflected in Consolidated Other Equity of Grp.

(Refer 800 Series of Question Bank)

16. IMPAIRMENT OF GOODWILL (Ind AS 110)

Journal Entry in CFS

Full Goodwill		Partial Goodwill	
Consolidated Retained Earnings A/c	Dr.	Consolidated Retained Earnings A/c	Dr.
NCI A/c	Dr.	To Goodwill A/c	
To Goodwill A/c			

(Refer Q1404 and Q1405 of Question Bank)

17. REVERSE ACQUISITION (Ind AS 103)

- Under Reverse Acquisition, the entity who actually discharge the Purchase consideration is not the acquirer company for accounting purposes.
- Acquirer company is the one who actually gets control.
- Types of Reverse Acquisition:
 - Acquisition through Shares
 - Merger of Two or more companies in which one existing company has obtained control over the Newly Merged Company.
- Reverse Acquisition through Shares:**

Example	<p>X Ltd. acquired the business of Y Ltd. X Ltd. will issue to the shareholders of Y Ltd. 5 shares of Rs. 10 each for every 2 shares held in Y Ltd. No. of O/s shares in X Ltd. are 7,500 shares. No. of O/s shares in Y Ltd. are 5,000 shares. Fair Value per share of Y Ltd. is 20/-</p> <p>Here, X Ltd. shall issue 12,500 no. of shares $[(5,000 \div 2) \times 5]$ to the shareholders of Y Ltd. Hence, the total outstanding shares of X Ltd. after this transaction will become 20,000 no. Out of 20,000 no. of shares of X Ltd.,</p>
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	<p>12,500 shares are held by Y (shareholders of Y) that comes to approx. 62.5% holding in X Ltd.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> Y Ltd. has 62.5% holding in X Ltd. hence Y Ltd. is called Accounting Acquirer who gets control over X Ltd. X Ltd. is treated as Accounting Acquiree (Legal Acquirer) because it is controlled by Y Ltd. 				
Who will apply Ind AS 103	Accounting Acquirer (Y Ltd.) shall apply acquisition method of Ind AS 103. Accounting Acquirer (Y Ltd.) has to calculate Deemed Purchase Consideration also called Notional PC.				
Deemed PC or Notional PC	<p>Step 1:</p> $\frac{\text{Total No. of Equity Shares in ESC of Accounting Acquirer (Y Ltd.)}}{\% \text{ of Holding of Accounting Acquirer in Legal Acquirer Ltd.}}$ $5,000 \div 62.5\% = 8,000 \text{ No.}$ <p>Step 2:</p> <p>Step 1 (-) Total No. of Equity Shares in ESC of Accounting Acquirer (Y Ltd.)</p> $8,000 - 5,000 = 3,000 \text{ No.}$ <p>Step 3:</p> <p>Deemed PC = Step 2 X Fair Value per share of Accounting Acquirer</p> $3,000 \times 20 = 60,000$ <p>60,000 no. will be assumed as Deemed PC to be issued by Accounting Acquirer (Y Ltd.) to X Ltd. (Accounting Acquiree)</p>				
Accounting	<ul style="list-style-type: none"> Net Assets of Accounting Acquiree (Legal Acquirer i.e. X Ltd.) are taken over at Fair Value NCI will be Zero Goodwill or Capital Reserve will be Deemed PC less Net Assets at Fair Value 				
Consolidation	<ul style="list-style-type: none"> Consolidated Financial Statements shall be prepared in the name of Legal Acquirer i.e. X Ltd. Net Assets of Accounting Acquiree at Fair Value plus Net Assets of Accounting Acquirer (Y Ltd.) at same book value Equity Share Capital of Combined Entity will be Original Legal Shares: <table style="width: 100%; border: none;"> <tr> <td style="padding-left: 20px;">ESC of Legal Acquirer (X Ltd.)</td> <td style="text-align: right;">7,500 no.</td> </tr> <tr> <td style="padding-left: 20px;">(+) Equity Shares actually issued</td> <td style="text-align: right;">12,500 no.</td> </tr> </table>	ESC of Legal Acquirer (X Ltd.)	7,500 no.	(+) Equity Shares actually issued	12,500 no.
ESC of Legal Acquirer (X Ltd.)	7,500 no.				
(+) Equity Shares actually issued	12,500 no.				
Calculation of EPS of Combined Entity	<p>Sometimes questions may ask to calculate the EPS. It is to be calculated as under:</p> <p>Formulae of EPS =</p> $\text{Earnings Available to ESH} \div \text{W. Avg. No. of Equity Shares}$				

	<p>(a) <u>Earnings Available to ESH:</u> EAESH of Accounting Acquirer for a period before Business Combination (+) EAESH of Combined Entity after Business Combination</p> <p>(b) <u>W. Avg. No. of Equity Shares:</u> Legal no. shares in the combined entity issued to Accounting Acquirer for full year (+) Legal no. Shares with legal Acquirer for Post Combination Period only</p>
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5) Reverse Acquisition through Merger of Two or More Companies:

Example	<ul style="list-style-type: none"> • X Ltd. and Y Ltd merged and formed a New Company XY Ltd. • Fair Value of X Ltd. is 50,000 and Fair Value of Y Ltd. is 75,000. • Board of Directors of XY Ltd. consist of 4 Directors of X Ltd. and 6 Directors of Y Ltd. Hence Y Ltd. is treated as Acquirer. • % of Fair Value of Y in the combined Fair Values is more than 50% hence it is a case of Reverse Acquisition $(75,000/1,25,000) \times 100 = 60\%$ • Y Ltd. holds 60% share in XY Ltd. Hence XY Ltd. and X Ltd. are treated as Accounting Acquiree.
Who will apply Ind AS 103	Accounting Acquirer (Y Ltd.) shall apply acquisition method of Ind AS 103. Accounting Acquirer (Y Ltd.) has to calculate Deemed Purchase Consideration also called Notional PC.
Deemed PC or Notional PC	Fair Value of Acquiree Co. (X Ltd.) will be assumed as Deemed PC i.e. 50,000 Suppose the MP per share of Y Ltd. is 20/- Y Ltd. should issue 2,500 no. of shares as Deemed PC
Accounting	<ul style="list-style-type: none"> • Net Assets of Accounting Acquiree (Legal Acquirer i.e. X Ltd.) are taken over at Fair Value • NCI will be Zero • Goodwill or Capital Reserve will be Deemed PC less Net Assets at Fair Value
Consolidation	<ul style="list-style-type: none"> • Consolidated Financial Statements shall be prepared in the name of the Merged Entity i.e. XY Ltd. • Net Assets of Accounting Acquiree (X Ltd.) at Fair Value plus Net Assets of Accounting Acquirer (Y Ltd.) at same book value

Example 10: - (Identifying Accounting Acquirer)

Idea Ltd. acquired the Net Assets of Vodafone & issued shares as a consideration.

Idea issues 5 shares for every 2 Held by Share Holders of Vodafone

Outstanding Shares of Vodafone is 1,00,000 No.

Outstanding Shares of Idea is 50,000 No.

Who is Accounting Acquirer & Legal Acquirer?

Solution:

Idea shall issue to Vodafone Share Holders = $1,00,000/2 \times 5 = 2,50,000$ No.

Now, after above issue, Total Outstanding Equity Shares of Idea will be $50,000 + 2,50,000$ No. i.e., 3,00,000 No.

Who are the Share Holders of Idea?

50,000 No. Held by Old Share Holders of Idea = 16.67%

2,50,000 No. Held by New Share Holders of Idea who were earlier Shareholders in Vodafone = 83.33%

Since Share Holders of Vodafone are having 83.33% Voting Rights It can be said that Vodafone is Accounting Acquirer.

Idea is Accounting Acquiree although Idea is a Legal Acquirer

Balance Sheet of Idea Ltd. & Group

Asset	
Vodafone (CA)	xxxx
Idea (Fair Value)	
Liabilities	
Vodafone (CA)	xxxx
Idea (Fair Value)	

Example 11: (PC in case of Reverse Acquisition)

How to Calculate the PC that should be discharges by Vodafone against Control

FV of one Share: -

Idea = 40/-

Vodafone = 75/-

Since Vodafone gets 83.33% in Idea.

Vodafone Existing Outstanding Shares = 1,00,000

$1,00,000 / 83.33\% \times 16.67\% = 20,000$ No.

Vodafone should have issued 20,000 No. to Obtain Control & Voting Rights over Idea

PC = $20,000 \times 75/- = 15,00,000/-$

Example 12: (Goodwill/GBP in case of Reverse Acquisition)

Calculate Goodwill / Gain on Bargain Purchase if FV of Net Assets of Idea is 14,20,000

Solution:

PC to Acquiree	15,00,000
(+) NCI	-
(-) 100% Net Assets	(14,20,000)
Goodwill (Only for A/c Purpose)	80,000

(Also Refer Practical Example no. 11 & 1300 Series of Question Bank)

18. COMMON CONTROL BUSINESS COMBINATIONS

(Ind AS 103)

1) What is Common Control Business Combination (CCBC)?

- Common control business combinations means a business combinations where **control doesn't transfer to another party**.
- Control over the business **is retained with the same party** (before and after Acquisition).
- Example: transfer of subsidiaries or businesses, between entities within a group.
- It is **not an actual business acquisition**; it is a corporate restructuring.

2) Examples of CCBC:

Group of Individuals	<p>A Ltd. and B Ltd. are owned by four Shareholders P, Q, R & S, each of whom holds 25% of the shares of each company.</p> <p>There is an agreement between P, Q & R for governance of A Ltd. and B Ltd. by which they exercise joint control.</p> <p>A Ltd. and B Ltd. are under common control of P, Q & R since they combine have 75% shareholding through agreement.</p>
Transfer of one subsidiary to another subsidiary	<ul style="list-style-type: none"> • Holding Ltd. has two subsidiaries, S1 Ltd. and S2 Ltd. • Holding Ltd. sold its investment in S2 Ltd. to S1 Ltd. • Now Holding Ltd. has one Subsidiary S1 Ltd. • S1 Ltd. has one subsidiary S2 Ltd. • S2 Ltd. is ultimately controlled by Holding Ltd. before or after the acquisition.

3) Accounting Under CCBC?

- a) The seller entity/entities are called Transferor company, and the acquirer entity is called transferee company.
- b) Transferee company shall apply "**Pooling of interests method**"
- c) **Pooling of Interest Method:**
 - All Assets and Liabilities including reserves of transferor company shall be recorded at **same Carrying Amount** (book value);
 - Compare Purchase Consideration amount with above Net Assets and Reserves recognised.
 - The difference will be **transferred to Capital reserve** (Gain/loss)
 - **Journal Entry:**

Assets A/c	Dr.	Book Value
Loss on Restructuring A/c (Capital Reserves)	Dr.	(Bal. fig.)
To Liabilities A/c		Book Value
To Reserves of Transferor A/c		Book Value
To Purchase Consideration A/c		As calculated
To Gain on Restructuring A/c (Capital Reserve)		(Bal. fig.)

4) Types of Common Control Business Combinations:

Merger of Two Companies	Transfer of One Division to Another Existing Company
Here, two companies merged and form a New Company. New Company is controlled by the members of both the old companies.	Here, one unit/division/segment of a company is transferred to a company. Such purchasing company issues Shares to the Share Holders of Existing Company, because of which, the Share Holders of existing company gets Control over the Purchasing Company i.e. Control over the Transferred Division is not Shifted. It Exist with Same Members of Group.
<p>Purchase Consideration: If PC is not given in the Question, then PC will be equal to Sum of ESC of Both Companies.</p> <p>This PC is then allocated in proportion of Book Value of Net Assets Taken Over.</p>	<p>Purchase Consideration: PC must be given in the form of exchange of shares.</p>

5) Restate Financial Statement of Prior Period:

- Prior Period financial statements are required to be restated as if business combination has occurred from the beginning of the preceding period, irrespective of the actual date of combination.
- However, if actual common control starts after the beginning of PY, then prior period information shall be restated only from that date.

(Also Refer 1200 Series of Question Bank)

19. DEMERGER (Ind AS 103)

- 1) **Demerger** is an arrangement whereby one division/segment of the entity (Demerged Company) is transferred to Newly incorporated Entity (Resultant Company).
- 2) Shareholders of the original company may lose the control over the transferred division.
- 3) **Accounting Treatment**

➤ **Demerged company Books:** Derecognition of Assets and Liabilities:

Liabilities A/c	Dr.	(Book Value)
Loss due to Demerger A/c	Dr.	(b/f)
To Assets A/c		Book Value
To Gain due to Demerger A/c		(b/f)

➤ **Resultant Company:**

- It gets control over the transferred division hence it shall follow "Acquisition method" of Ind AS 103.
- If the control over transferred division exists with the same company even after the demerger, then this transaction is treated as CCBS and Pooling of Interest Method shall be followed.
- Accounting as per Acquisition Method for Resulting Company:

Assets A/c	Dr.	(Fair Value)
Goodwill A/c	Dr.	(b/f)
To Liabilities A/c		(Fair Value)
To Bank A/c		(PC)
To ESC and Sec Premium A/c		(PC)
To Capital Reserve A/c		(b/f)

(Refer Q1503 of Question Bank)

20. CHAIN HOLDING (Ind AS 110)

1) Example of Chain Holding:

- Parent has Acquired 80% shares in Subsidiary 1 (S1)
- Subsidiary (S1) has Acquired 70% shares in Subsidiary 2 (S2)

2) Entire procedure for Consolidation is same as discussed above with one additional adjustment as under:

Carrying Amount of Investment Made by S1 in S2 is divided into two parts E.g. Investment by S1 in S2 is 1,00,000	
Share of P in such investment say 80% i.e. 80,000	Share of NCI of S1 say 20% i.e. 20,000
Under COC Working of S2, Take Investment Cost at 80,000	Under NCI working of S1, this share of NCI i.e. 20,000 is deducted from total amount.

Example 13:

Balance Sheets (Extract)

Particulars	P	S1	S2
Investments			
By P in S1 (80%)	5,00,000	-	-
By S1 in S2 (70%)	-	3,00,000	-

Solution:

1. Cost of Control (Extract)

Particulars	COC for S1	COC for S2
Investment (PC) by P in S1	5,00,000	-
Investment (PC) by P in S2 (P's share 80%) (share of P in Investment made by S1 in S2)	-	2,40,000

2. Non-controlling Interest (Extract)

Particulars	NCI of S1	NCI of S2
NCI working as usual	-	-
(-) Share of NCI of S1 in Investment Made by S1 in S2	(60,000)	-

Reason: This is because 60,000 Investment of S1 doesn't belong to Parent, it belongs to other shareholders of S1 (i.e. NCI of S1) and it has a debit balance. Overall NCI is credit balance therefore it is setoff.

(Refer Practical Example 12 and Series 1100 of Question Bank)

21. CHANGE IN % OF HOLDING OF PARENT CO. (Ind AS 110)

Case 1: Purchase of Additional shares in Subsidiary after DOA

Impact on NCI	NCI % shall be reduced Proportionately.
Journal Entry in SFS of Parent	Investment A/ Dr. To Bank A/c
Journal Entry in CFS of Parent	NCI A/c Dr. (Proportionately) To Bank A/c (Any Difference in above entry is transferred to Consolidated Other Equity of Group)

Case 2: Sale of Shares in Subsidiary after DOA (with "No Loss of Control")

Impact on NCI	<ul style="list-style-type: none"> NCI % shall be Increased. Increase in NCI = % of Sale X (Net Assets + Goodwill as on Date of Sale)
Journal Entry in SFS of Parent	Bank A/c Dr. To Investment A/c (Proportionate Carrying Amt) (Any Difference in above is Gain/Loss on Sale and transferred to Profit and Loss A/c)
Journal Entry in CFS of Parent	Bank A/c Dr. To NCI A/c (increase in NCI) (Any Difference in above entry is transferred to Consolidated Other Equity of Group)

Case 3: Sale of Shares in Subsidiary after DOA (with "Loss of Control")

Impact on CFS	<ul style="list-style-type: none"> Derecognise carrying amount of Net Assets of Subsidiary as on date of Sale Derecognise Goodwill as on date of sale Derecognise carrying amount of NCI on date of sale Recognise Amount received for sale of Investment (Bank A/c) Recognise Retained Investment in Subsidiary at Fair Value Any difference due to above adjustment is transferred to Profit and Loss A/c
How to Calculate the Fair Value of Retained Investments	Either it will be given in the question; or It is calculated as under: "Sale Value of Investments" X "% retained" ÷ "% Sold"
How to Calculate the Carrying	1) <u>If NCI is based on Fair Value</u> Carrying Amt. of (Net Assets + Goodwill) X NCI %

Value of NCI to be derecognized	2) <u>If NCI is based on Proportionate Share of Net Assets</u> Carrying Amt. of Net Assets X NCI %										
Journal Entry in CFS of Parent	<table border="0"> <tr> <td>Bank A/c Dr.</td> <td>(Sale Proceeds)</td> </tr> <tr> <td>NCI A/c Dr.</td> <td>(Carrying Amt.)</td> </tr> <tr> <td>Investments A/c Dr.</td> <td>(Retained Part at Fair Value)</td> </tr> <tr> <td> To Net Assets A/c</td> <td>(Carrying Amt.)</td> </tr> <tr> <td> To Goodwill A/c</td> <td>(Carrying Amt.)</td> </tr> </table> <p>(Any Difference in above entry is transferred to Profit and Loss A/c)</p>	Bank A/c Dr.	(Sale Proceeds)	NCI A/c Dr.	(Carrying Amt.)	Investments A/c Dr.	(Retained Part at Fair Value)	To Net Assets A/c	(Carrying Amt.)	To Goodwill A/c	(Carrying Amt.)
Bank A/c Dr.	(Sale Proceeds)										
NCI A/c Dr.	(Carrying Amt.)										
Investments A/c Dr.	(Retained Part at Fair Value)										
To Net Assets A/c	(Carrying Amt.)										
To Goodwill A/c	(Carrying Amt.)										
Reclassification of OCI	<p>Parent's share in OCI reserve of subsidiary company shall be reclassified to either P&L or directly to retained earnings depending on Nature of OCI reserve:</p> <ul style="list-style-type: none"> ● Revaluation Reserve of Subsidiary - Transfer to Retained Earnings ● FCTR of Subsidiary - Transfer to P&L ● Actuarial Gain/Loss of Subsidiary - Transfer to Retained Earnings 										
Loss of Control in two or more transactions	<p>Treat all transactions as "Single Transaction" only when it fulfills below conditions:</p> <ul style="list-style-type: none"> ● All Transactions are entered into near the same time ● All transactions form a single transaction designed to achieve overall objective ● One transaction considered on its own is not economically justified unless it is considered together with another transaction 										

(Refer Practical Example 13 and also Refer Series 1000 of Question Bank)

21. BUSINESS ACQUISITION VS. ASSET ACQUISITION

(Ind AS 103)

- 1) Ind AS 103 applies to Business Acquisition and not to Asset Acquisition.
- 2) Asset Acquisition accounting is applicable under Ind AS 16, 38, 40 etc.
- 3) Sometimes it's very difficult to identify whether the transaction contains Business Acquisition or Asset Acquisition.
- 4) Business means integrated set of activities having three important elements:
 - a) **Inputs:** means Assets and other resources required to generate output
 - b) **Processes:** means techniques, decision making, management skills used to generate outputs
 - c) **Outputs:** Revenue generated by using Inputs and Processes.
- 5) However, in many cases, **outputs are not necessarily available always** to treat the transaction as Business acquisition.
- 6) To identify the transaction as Business Acquisition, entity has to follow below conditions:

If set of activities and assets have outputs	If set of activities and assets doesn't have output
<p>Is the Process critical to produce outputs and inputs include workforce then acquired Assets are considered as Business Acquisition.</p> <p style="text-align: center;">(OR)</p> <p>Is the Process significantly contribute to the ability to produce output and such process is scarce/unique/hard to replace, if yes then it is business acquisition.</p>	<p>Is the Process critical to develop/covert inputs into outputs (AND)</p> <p>Input includes workforce and other inputs that workforce can convert to outputs, if yes then it is business acquisition.</p>
<p>Examples:</p> <p>Acquired a Running Business Yes, it is Business Acquisition (because it has Input, Substantive Process & Output)</p> <p>Acquired a company with following items: Production Plant (Factory) with skilled workforce Intellectual Property Rights (Patents) essential to earn revenue. However the company has not yet started earning revenue. <u>Conclusion: it is a business acquisition</u></p> <p>Acquired an under Constructed Factory Building (No workforce is yet appointed) It's an Asset Acquisition</p>	

7) Concentration Test:

- Instead of assessing whether you have inputs, substantive process and all other features of business, Ind AS 103 introduced **new simplification option called Concentration Test.**

- It is an optional test to determine whether acquired set of activities and Assets is a Business Acquisition or Asset Acquisition.
- **If Concentration test is passed, then the transaction is treated as Asset Acquisition.**
- If Concentration test is failed, then further analysis is required as per above conditions of point no. 6
- If the **Fair Value of Gross Assets** Acquired is **substantially concentrated in as Single Asset**, the test is passed hence such acquisition is treated as "Asset Acquisition".
- Apply following steps for concentration test:

Step 1:	<p><u>Calculate Fair Value of Gross Assets Acquired as Under:</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">FV of Consideration Transferred</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>(+) FV of Previously acquired interest</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>(+) FV of NCI</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>(+) FV of Liabilities Acquired (excluding DTL)</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>(-) Cash and Cash Equivalents</td> <td style="text-align: right;">(xxx)</td> </tr> <tr> <td>(-) DTA</td> <td style="text-align: right;">(xxx)</td> </tr> </table>	FV of Consideration Transferred	XXX	(+) FV of Previously acquired interest	XXX	(+) FV of NCI	XXX	(+) FV of Liabilities Acquired (excluding DTL)	XXX	(-) Cash and Cash Equivalents	(xxx)	(-) DTA	(xxx)
FV of Consideration Transferred	XXX												
(+) FV of Previously acquired interest	XXX												
(+) FV of NCI	XXX												
(+) FV of Liabilities Acquired (excluding DTL)	XXX												
(-) Cash and Cash Equivalents	(xxx)												
(-) DTA	(xxx)												
Step 2:	Identify the Single or Group of Similar Assets taken over whose fair value is highest among other assets.												
Step 3:	<p>Calculate the % of Concentration of Single Asset into Gross Assets as under:</p> $\frac{\text{FV of Single Asset (Step 2)}}{\text{FV of Gross Asset (Step 1)}} \times 100$ <p>If the above percentage is 90% or More, then the concentration test is passed. It will be considered as Asset Acquisition</p>												

Example 14: (Concentration Test)

Acquired a Business of other entity at PC of 100 Crore, having Net Assets as under:
Land & Building= 95 Crore, and combined value of Vehicle, Furniture and Debtors = 4 Cr.

Solution:

$$95 / 100 \times 100 = 95\%$$

PC is Substantially Concentrated towards Land Only i.e., More than 90%

Concentration test is passed. It is not Business Acquisition.

Example 15: (Concentration Test)

Entity A holds 20% interest in Entity B. Subsequently Entity A, further acquires 50% share in Entity B by paying 300 Crores.

The fair value of assets acquired and Liabilities assumed are as follows:

Building	- 1000 Crores
Cash and Cash Equivalent	- 200 Crores
Financial Liabilities	- 800 Crores
DTL	- 150 crores

Fair value of Entity B is 400 Crores and Fair value of NCI is 120 Crores ($400 \times 30\%$)

Fair value of Entity A's previously held interest is 80 Crores ($400 \times 20\%$)

Entity A needs to determine whether acquisition is an asset acquisition as per concentration test.

- i) Fair value of consideration transferred (including fair value of non-controlling interest and fair value of previously interest held) = $300 + 120 + 80 = 500$ Crores
- ii) Fair value of liability assumed (excluding deferred tax) = 800 crores
- iii) Cash and cash equivalent = (200) crores.

Fair value of Gross Assets acquired 1100 Crores.

Fair Value of Building is 1000 Crores

In the above scenario, substantially all fair value of gross assets acquired is concentrated in a single identifiable asset i.e. building. Hence it should be asset acquisition. ($1,000 / 1,100 = 91\%$ of value of gross assets is concentrated into single identifiable asset i.e. building).

(Refer Practical Example 14 & Also Refer Series 100 of FR Question Bank)



Student Notes:-