3 IND AS 103 BUSINESS COMBINATION

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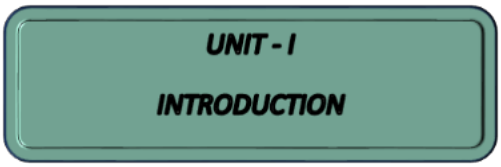
This standard deals with Mergers, Acquisit on and Demerger of corporate ent t es



PART – I – MEANING OF BUSINESS COMBINITION

1 Definition of Business

An integrated Set of Act vit es and Assets that is capable of being Conducted and Managed for the purpose of

- producing goods and services
- Investment Income (Interest and dividend) : OR
- Income from other ordinary Act vit es

2 Elements of Business

Insight

→ **Inputs :** Non-current assets including intangible assets or rights to use non current asset, intellectual property, and the ability to obtain access to necessary materials or rights and skilled employee. (does not include sales workforce, D group staf which can be easily replicated)

→ **Process :** Any system, standard, protocol, convent on or rule that when applied to an input(s), creates or has ability to create outputs

→ **Ability to create :** means development stage example – Start ups

→ Account ng, Billing, payroll and other administrat on system are not process to create output

→ **Investment Property**

Purchase of investment property along with single tenancy agreement along with employees who provide ancillary services does not const tute business. (not process to create output)	Purchase of investment property along with mult - tenancy short term agreement along with employees who provide ancillary services and other service for business development, const tute business. (process to create output)
It should be accounted as asset purchase	It should be accounted as Business combinat on

→ Acquisit on of a shell company does not const tute business hence goodwill cannot be recognised. Rather dif erence between Net Assets Acquired and Purchase Considerat on would be regarded as “Preliminary Expenses”

→ If goodwill is present it is presumed to be business. However a business need not have goodwill.

→ In evaluat ng Business, evaluat on is from market part cipant point of view

CONCEPT – 2

BUSINESS COMBINATION

2 Definition of Business Combination

A transact on or other event in which, an Acquirer Obtains Control of one or more Acquiree.

Insight

1. **Acquirer**
   The Ent ty which obtains control of one or more Acquiree (business).

2. **Control**
   Means as having more than 50% shareholding and power to compose board of director
   Shareholding includes Potent al Vot ng Rights (means opt ons which give arise to shares in future).
   → If Exercise Price to buy shares < Market price of the shares, then such opt ons should be considered as Potent al Rights.
   → If Exercise Price to buy shares > Market price of the shares, then such opt ons should not be considered as Potent al Rights.

3. **Obtains**
   Means get ng such a control by payment of Purchase Considerat on in the form of cash, asset, shares etc Somet mes control can be obtained without PC !!!!!!

4. **Acquiree**
   Means business of which acquirer obtains control. Acquiree may not be an ent ty

TUTORIAL NOTE

From the def nit on of Business Combinat on, it very clear that for a business combinat on, the control by one ent ty of another ent ty arises when

- Acquirer acquires (takes over) net assets of a business (Amalgamat on / Absorpt on)
  OR
- Majority stake in evidencing substant ve control (Subsidiary)

BUSINESS

CASE STUDY - 1

Company A is a pharmaceut cal company. Since incept on, the Company had been conduct ng in-house research and development act vit es through its skilled workforce and recently obtained an intellectual property right (IPR) in the form of patents over certain drugs. The Company's has a product on plant that has recently obtained regulatory approvals. However, the Company has not earned any revenue so far and does not have any customer contracts for sale of goods. Company B acquires Company A.

Required

Does Company A const tute a business in accordance with Ind AS 103?

ANALYSIS

The def nit on of business requires existence of inputs and processes. In this case, the skilled workforce, manufacturing plant and IPR, along with strategic and operat onal processes const tutes the inputs and processes in line with the requirements of Ind AS 103. When the said inputs and processes are applied as an integrated set, the Company A will be capable of producing outputs; the fact that the Company A currently does not have revenue is not relevant to the analysis of the def nit on of business under Ind AS 103. On this Basis and presuming that Company A would have been able to obtain access to customers that will purchase the outputs, the present case can be said to const tute a business as per Ind AS 103.

CASE STUDY - 2

Modifying the above CASELET, if Company A had revenue contracts and a sales force, such that Company B acquires all the inputs and processes other than the sales force, then whether the def nit on of the business is met in accordance with Ind AS 103?

ANALYSIS

Though the sales force has not been taken over, however, if the missing inputs (i.e., sales force) can be easily replicated or obtained by the market part cipant to generate output, it may be concluded that Company A has acquired business. Further, if Company B is also into similar line of business, then the exist ng sales force of Company B may also be relevant to mit gate the missing input. As such, the def nit on of business is met in accordance with Ind AS 103.

POTENTIAL VOTING RIGHTS

CASE STUDY - 3

Company P Ltd., a manufacturer of text le products, acquires 40,000 of the equity shares of Company X (a manufacturer of complementary products) out of 1,00,000 shares in issue. As part of the same agreement, Company P purchases an opt on to acquire an addit onal 25,000 shares. The opt on is exercisable at any t me in the next 12 months. The exercise price includes a small premium to the market price at the transact on date. Af er the above transact on, the shareholdings of Company P's two other original shareholders are 35,000 and 25,000. Each of these shareholders also has currently exercisable opt ons to acquire 2,000 addit onal shares.

ANALYSIS

In assessing whether it has obtained control over Company X, Company P should consider not only the 40,000 shares it owns but also its opt on to acquire another 25,000 shares (a so-called potent al vot ng right). In this assessment, the specif c terms and condit ons of the opt on agreement and other factors are considered:

- The opt ons are currently exercisable and there are no other required condit ons before such opt ons can be exercised

- If exercised, these opt ons would increase Company P's ownership to a controlling interest of over 50% before considering other shareholders' potent al vot ng rights (65,000 shares out of a total of 1,25,000 shares)
- Although other shareholders also have potent al vot ng rights, if all opt ons are exercised Company P will st ll own a majority (65,000 shares out of 1,29,000 shares)
- The premium included in the exercise price makes the opt ons out-of-the- money. However, the fact that the premium is small and the opt ons could confer majority ownership indicates that the potent al vot ng rights have economic substance.

By considering all the above factors, Company P concludes that with the acquisit on of the 40,000 shares together with the potent al vot ng rights, it has obtained control of Company X.

CONCEPT – 3

HOW TO IDENTIFY A BUSINESS COMBINATION

How to ident fy that a part cular "Set of Act vit es (SOA) and Assets" acquired by an Acquirer is a Business Combinat on

1 Steps to check

Step – 1

Apply Concentrat on Test (Opt onal)

- Qualif ed → Then that part cular Acquisit on is Asset Acquisit on
- Not Qualif ed → Then Apply Business Assessment Test (BAT)

Step – 2

Apply Business Assessment test (Mandatory)

Qualif ed	Not Qualif ed
Then that part cular Acquisit on is Business Acquisit on	Then that part cular Acquisit on is asset Acquisit on

One can directly apply BAT without f rst applying CT

2 *Concentration test*

Step – 1	Calculat on of Fair Value of Considerat on	XXX
	Fair Value of previously Acquired Interest (Stake) before date of at aining control	XXX
	Considerat on being transferred to acquire SOA as on date of at aining control	XXX
	NCI	XXX
		XXX
Step - 2	Calculat on of Fair Value of Assets Acquired	
	Fair Value of considerat on as per step – 1	XXX
	Add : Fair Value of liabilit es assumed (do not include DTL) XXX	XXX
	Less : Cash and cash equivalent acquired	XXX
		XXX
Step – 3	Ident fy Single Ident f able Asset or similar group of ident f able assets (α) Concentrat on Test = FV of α _____ n x 100 = _____ % FV of assets acquired (Step – 2) If % exceeds 90% then CT is qualif ed.	

NCI implies

If X Ltd acquires 70% shares of Y Ltd, then in case of business combinat on X Ltd acquires control over Y ltd, BUT both X Ltd and Y Ltd will exist as separate ent t es.

In such a situat on X ltd becomes a Parent company or Report ng Ent ty by preparing Consolidated Financial Statements.

30% of shares held by others is referred to as "Non-Controlling Interest" (NCI)

NCI is valued at

(a) FV of shares held by NCI as on DOA or

(b) NCI % x NA of Acquiree as on DOA

Ind AS – 103 is not applicable on Joint Control

Example

- A ltd acquired control over business of B ltd
  Ind AS 103 is applicable

- A ltd acquired Joint Control over business of B ltd
  Ind AS 103 is not applicable (Ind AS 111 is applicable)

Quest on # 1

X ltd acquired Y ltd for ₹ 20,000. It had following assets

	₹
Land and building	18,000
Inventories	500
Another PPE	700
Bank	100
Other assets	2,000

Y ltd had liability of ₹ 3000 including DTL of ₹ 1000. Apply Concentrat on test

Quest on # 2

A ltd holds 30% shares of B ltd cost ₹ 1000 and FV ₹ 1500. It acquired further 50% stake of B ltd for ₹ 2000, on which date FV of remaining 20% stake being ₹ 1,200.
B ltd had cash and cash equivalent of ₹ 500, DTL of ₹100 and substant al PPE of ₹ 3,800.
A ltd want to know whether it is Asset Acquisit on as per Concentrat on Test in 103.

Quest on # 3

Ent ty A holds 20% interest in Ent ty B. Subsequently Ent ty A, further requires 50% share in Ent ty B by paying ₹ 300 crores.
The fair value of assets and liabilit es assumed are as follows

	₹ in crores
Building	1,000
Cash and cash equivalent	200
Financial liabilit es	800
DTL	150

FV of Ent ty B is ₹ 400 crores and FV of Ent ty A's previously held interest is ₹ 80 crores. Apply Concentrat on test

3 Business Assessment Test

1st Check –
- In SOA acquired there should be minimum "1 Input + Substant ve process"
- Substant ve Process implies SOA acquired
  a) should create output
     OR
  b) has ability to create output

2nd Check -	
SOA acquired does not produce any output as on DOA	SOA acquired produce any output as on DOA
Check –	**Check –**
Process Acquired Is crit cal to **"ability to create output"** **<u>Input Acquired</u>** Is Organised, Special and Skilled workforce along with resources needed by such workforce which has ability to create output	**Process Acquired** is crit cal to "cont nue producing output" **Plus** **<u>Input Acquired</u>** Is Organised, Special and Skilled workforce along with resources needed by such workforce which has ability to cont nue producing output **OR** **<u>Process Acquired</u>** Is Unique/rare and cannot be replaced easily as it and cannot be created unless substant al t me and cost is cost is needed

If these checks are sat sf ed then consider such SOA and input acquire as Business else Asset Acquisit on

Acquisit on of Asset or Group of Asset does not const tute business

Ind AS 103 specif es that if group of assets are acquired, which it is not a business, then purchase considerat on to acquire such group of assets should be allocated in rat o of their fair value. In this case goodwill or capital reserve will not arise.

Quest on # 4

An ent ty acquires an equipment and patent in exchange for Rs.1,000 crore cash and land. The fair value of is Rs.400 crore and its carrying value is Rs.100 crore. Fair value of Equipment and patent is est mated to be Rs.500 crore and Rs.1000 crore respect vely.
Show how the transact on be accounted.

PART – II – BASICS OF BUSINESS COMBINATION

CONCEPT – 4

TYPES OF BUSINESS COMBINATION

REFER HANDWRITTEN NOTES OF CLASS

CONCEPT – 5

METHODS OF ACCOUNTING

Method of Account ng as provided by Ind AS 103 is ONE and ONLY Acquisit on Method

Important Note:

- Under Acquisit on method this standard also specif es Consolidat on Account ng as per Ind AS 110 as on DOA
- In certain case Reverse Acquisit on Method is also to be followed
- If business combinat on qualif es as Common Control transact on (CCT) as Specif ed inAppendix C of Ind AS 103, then Pooling of Interest method is to be applied

Here f rst we will understand basics of Acquisit on Method and Consolidat on account ng, referring to capsule given classroom, there af er one by one in detail we will understand all the methods.

CONCEPT – 6

ACCOUNTING FOR CONSOLIDATION AS ON DOA

REFER HANDWRITTEN NOTES OF CLASS

CONCEPT – 7

THINGS TO STUDY

This chapter for Study purpose has been divided into 5 units other than

UNIT – 1 – Introduct on (already discussed above)

UNIT – II	Acquisit on Method
UNIT – III	Reverse Acquisit on
UNIT – IV	Common Control Transact on
UNIT – V	Spin of (Demerger and Sale of Division)
UNIT – VI	First t me Adopt on as per Ind AS - 101

UNIT - II

ACQUISITION METHOD

CONCEPT – 8

SOME BASICS

Whenever Account ng Acquirer obtains control over Acquiree then, "ACQUISTION METHOD" is to be applied

Under Acquisit on Method following steps are to be applied

STEP – 1	Ident fy the Acquirer (Account ng Acquirer)
STEP – 2	Ident fy the Acquisit on Date
STEP – 3	Calculate Net Asset Acquired (NAA)
STEP – 4	Calculate Purchase Considerat on (PC)
STEP – 5	Calculate Goodwill or Gain on Bargain Purchase
STEP – 6	Account ng in the books of Acquirer - Recognit on
STEP – 7	Balance sheet as on Date of Acquisit on

Now let us understand each step in details in separate CONCEPTS.

CONCEPT – 9

IDENTIFY THE ACQUIRER

In the eyes of Law, Acquirer is an ent ty which pays PC but in eyes of Ind AS, Acquirer is ent ty which has control over the ent ty af er business combinat on.

1 *Accounting Acquirer – (Investor)*

An ent ty which has majority of vot ng rights (control) in the result ng company (Investee).

2 *Legal Acquirer*

An ent ty which discharges PC.

3 *Accounting Acquirer and Legal Acquirer may be different.*

(Reverse Acquisit on dealt later)

Quest on # 5

Situat on – 1

A limited share capital is 10,000 shares of ₹ 10 each
B limited share capital is 7,000 shares of ₹ 7 each
A ltd takes over business of B ltd. It agreed to issue 4 share for every share of B ltd at FV of ₹ 12 per share.

Situat on – 2

A limited share capital is 10,000 shares of ₹ 10 each
B limited share capital is 15,000 shares of ₹ 7 each
C ltd was formed to takeover A ltd and B ltd. Swap Rat o 3:2 for A ltd and 1:2 for B ltd.
FV of shares of C ltd is ₹ 11 per share.

Situat on – 3

A limited share capital is 10,000 shares of ₹ 10 each
B limited share capital is 15,000 shares of ₹ 7 each
C ltd with 30,000 shares as its share capital took over A ltd and B ltd.
Swap Rat o 3:2 for A ltd and 1:2 for B ltd. FV of shares of C ltd is ₹ 11 per share.

Ident fy the Account ng Acquirer in each of the above situat ons

CASE STUDY - 4 [RTP November 2020]

Veera Limited and Zeera Limited are both in the business of manufacturing and selling of Lubricant. Veera Limited and Zeera Limited shareholders agree to join forces to benef t from lower delivery and distribut on costs. The business combinat on is carried out by set ng up a new ent ty called Meera Limited that issues 100 shares to Veera Limited's shareholders and 50 shares to Zeera Limited's shareholders in exchange for the transfer of the shares in those ent t es. The number of shares ref ects the relat ve fair values of the ent t es before the combinat on. Also respect ve company's shareholders gets the vot ng rights in Meera Limited based on their respect ve shareholding.
Determine the acquirer by applying the principles of Ind AS 103 'Business Combinat ons'.

Solut on:
As per para B15 of Ind AS 103, in a business combinat on ef ected primarily by exchanging equity interests, the acquirer is usually the ent ty that issues its equity interests. However, in some business combinat ons, commonly called 'reverse acquisit ons', the issuing ent ty is the acquiree. Based on above ment oned para, acquirer shall be either of the combining ent t es (i.e. Veera Limited or Zeera Limited), whose owners as a Group retain or receive the largest port on of the vot ng rights in the combined ent ty.
Hence, in the above scenario Veera Limited's shareholder gets 66.67% share (100 / 150 x100) and Zeera Limited's shareholder gets 33.33% share in Meera Limited.
Hence, Veera Limited is acquirer as per the principles of Ind AS 103.

CONCEPT – 10

IDENTIFY THE ACQUISITION DATE

1 *Which is Actual Acquisition Date*

A. The date on which control (> 50% VOTING RIGHTS) is obtained by Account ng Acquirer
B. The date on which the acquirer legally transfers the considerat on, acquires the assets and assumes the liabilit es of the acquire

2 *Other important Points*

C. An investor controls an investee if and only if the investor has all the following:
   (a) Power over the investee;
   (b) Exposure, or rights, to variable returns from its involvement with the investee; and
   (c) The ability to use its power over the investee to af ect the amount of the investor's returns.
D. A non-binding let er of Intent does not transfer the control, hence it is not relevant in f nd acquisit on date.

ACQUISITION DATE

CASE STUDY - 5

On April 1 Company X agrees to acquire the share of Company B in an all equity deal. As per the binding agreement Company X will get the ef ect ve control on 1 April however the considerat on will be paid only when the shareholders' approval is received. The shareholders meet ng is scheduled to happen on 30 April. If the shareholder approval is not received for issue of new shares, then the considerat on will be set led in cash.
What is the acquisit on date?

ANALYSIS

The acquisit on date in the above example is 1 April. In the above scenario even if the shareholder don't approve the shares considerat on can be set led through payment of cash.

CASE STUDY - 6

Can an acquiring ent ty account for a business combinat on based on a signed non- binding let er of intent where the exchange of considerat on and other condit ons are expected to be completed with 2 months?

ANALYSIS

No. as per the requirement of the standard a non- binding Let er of Intent (LOI) does not ef ect vely transfer control and hence this cannot be considered as the basis for determining the acquisit on date.

CASE STUDY - 7

ABC Ltd. acquired all the shares of XYZ Ltd. The negot at ons had commenced on 1st January, 20X1 and the agreement was f nalised on 1st March, 20X1. While ABC Ltd. obtains the power to control XYZ Ltd.'s operat ons on 1st March, 20X1, the agreement states that the acquisit on is ef ect ve from 1st January, 20X1 and that ABC Ltd. is ent tled to all prof ts af er that date. In addit on, the purchase price is based on XYZ Ltd.'s net asset posit on as at 1st January, 20X1.
What is the date of acquisit on?

ANALYSIS

In this case, notwithstanding that the price is based on the net assets at 1stJanuary, 20X1 and that XYZ Ltd.'s shareholders do not receive any dividends af er that date, the date of acquisit on for account ng purposes will be 1st March, 20X1. It is only on 1st March, 20X1 and not 1st January, 20X1, that ABC Ltd. has the power to direct the relevant act vit es of XYZ Ltd. so as to af ect its returns from its involvement with XYZ Ltd. Accordingly, the date of acquisit on is 1st March, 20X1.

CASELET - 8

On 9 April 2012, Shyam Ltd. a listed company started to negot ate with Ram Ltd, which is an unlisted company about the possibility of merger. On 10 May 2012, the board of directors of Shyam authorized their management to pursue the merger with Ram Ltd. On 15 May 2012, management of Shyam Ltd of ered management of Ram Ltd 12,000 shares of Shyam Ltd against their total share outstanding. On 31 May 2012, the board of directors of Ram Ltd accepted the of er subject to

shareholder vote. On 2 June 2012 both the companies jointly made a press release about the proposed merger.
On 10 June 2012, the shareholders of Ram Ltd approved the terms of the merger.
On 15 June, the shares were allot ed to the shareholders of Ram Ltd.
The market price of the shares of Shyam Ltd was as follows:

DATE	PRICE
9 April	70
10 May	75
15 May	60
31 May	70
2 June	80
10 June	85
15 June	90

What is the acquisit on date and what is purchase considerat on in the above scenario?

ANALYSIS

In the above scenario, the acquisit on date will the date on which the shares were allot ed to the shareholders of Ram Ltd. Although the shareholder approval was obtained on 10 June but the shares were issued only on 15 June and accordingly the 90 will be considered as the market price.

CASELET - 9

ABC Ltd. and XYZ Ltd. are manufacturers of rubber components for a part cular type of equipment. ABC Ltd. makes a bid for XYZ Ltd.'s business and the Compet t on Commission of India (CCI) announces that the proposed transact on is to be scrut nised to ensure that compet t on laws are not breached. Even though the contracts are made subject to the approval of the CCI, ABC Ltd. and XYZ Ltd. mutually agree the terms of the acquisit on and the purchase price before compet t on authority clearance is obtained. Can the acquisit on date in this situat on be the date on which ABC Ltd. and XYZ Ltd. agree the terms even though the approval of CCI is awaited (Assume that the approval of CCI is substant ve)?

ANALYSIS

Since CCI approval is a substant ve approval for ABC Ltd. to acquire control of XYZ Ltd.'s operat ons, the date of acquisit on cannot be earlier than the date on which approval is obtained from CCI. This is pert nent given that the approval from CCI is considered to be a substant ve process and accordingly, the acquisit on is considered to be completed only on receipt of such approval

CONCEPT – 11

CALCULATION OF NET ASSET

1 Statement of Net Assets Acquired

Ident f able Assets acquired at FV as on DOA	XXX
Add : DTA - Refer note - 1 XXX	XXX
Add : Re-Acquired Rights - Refer note - 2 XXX	XXX
Add : Indemnif cat on Asset - Refer note - 3 XXX	XXX
Less : DTL - Refer note - 1	(XXX)
Less : Liabilit es assumed at FV as on DOA (XXX)	(XXX)
Less : FV of Cont ngent Liabilit es as on DOA (XXX)	(XXX)
Less : FV of post ret rement Employee Benef ts (XXX)	(XXX)
NA of Acquiree as on DOA XXX	XXX
BEWARE OF MESUREMENT PRINCIPLE – REFER NOTE - 4	XXX

2 DTA AND DTL

Dif erence between book values of NA acquired as on DOA and FV of NA acquiredas on DOA gives rise to creat on of DTA and DTL as per Ind AS 12 Refer Handwrit en Class Notes for further clarif cat on

Suppose

Items of NAA	Fair Value	Book value	Dif erence
Asset	100	80	20 – taxable
Asset	100	35	30 – deduct ble
Liability	100	75	25 – deduct ble
Liability	100	140	40 – taxable
		NET	5 – taxable
		Tax rate	30 %
		DTL (5x 30 %)	1.5

❖ **If Net Dif erence was deduct ble then, Dif erence x Tax Rate = DTA**

3 Re-acquired Rights (Intangible Asset)

Buy Back of franchise

When a franchisee wants to get out of the business, the franchise contract includes provisions, grant ng the franchisor the right to buy the franchise back. The franchisor may want to take over a prof table locat on for itself.

As per Ind AS 103

A. FV of re-acquired rights should be recognised separately from goodwill
B. Acquirer recognises a gain or loss, measured as LOWER OF :
   i. Dif erence between Amount Payable and Book Value of Asset
   ii. Set lement Amount As Stated In the Contract

REACQUIRED RIGHTS

CASE STUDY - 10

Vadapav Ltd. is a successful company has number of own stores across India and also of ers franchisee to other companies. Ef cient Ltd. is one of the franchisee of Vadapav Ltd. and is and operates number of store in south India. Vadapav Ltd. decided to acquire Ef cient Ltd due to its huge distribut on network and accordingly purchased the outstanding shares on 1st April, 20X2. On the acquisit on date, Vadapav Ltd. determines that the license agreement ref ects current market terms.

ANALYSIS

Vadapav will record the franchisee right as an intangible asset (reacquired right) while doing purchase price allocat on and since it is at market terms no gain or loss will be recorded on set lement.

CASE STUDY - 11

ABC Ltd. acquires PQR Ltd. for a considerat on of ₹1 crore. Four years ago, ABC Ltd. had granted a ten-year license allowing PQR Ltd. to operate in Europe. The cost of the license was ₹2,50,000. The contract allows either party to terminate the franchise at a cost of the unexpired init al fee plus 20%. At the date of acquisit on, the set lement amount is ₹1,80,000 [(₹2,50,000 x 6/10) + 20%].
ABC Ltd. has acquired PQR Ltd., because it sees high potent al in the European market and wishes to exploit it. ABC Ltd. calculates that under current economic condit ons and at current prices it could grant a six-year franchise for a price of ₹4,50,000.
How is the license accounted for as part of the business combinat on?

ANALYSIS

In the instant case,

A. The license is recognised at ₹4,50,000, the fair value at market rates of a license based on the remaining contractual life.
B. The gain or loss on set lement of the contract is the lower of:

- ₹.3,00,000 i.e dif erence between amount payable ₹.4,50,000, and the carrying value (or the unamort sed value) that it was granted for, ₹.1,50,000 (2,50,000 X 6/10).
- ₹.1,80,000, which is the amount that ABC Ltd. would have to pay to terminate the right at the date of acquisit on.

The loss on set lement of the contract is ₹.1,80,000. Therefore, out of the ₹.1 crore paid, ₹.98.2 lakh is accounted for as considerat on for the business combinat on and ₹.1,80,000 is accounted for separately as a set lement loss on the re-acquired right.

4 *Indemnification Asset*

If, FV of Cont ngent liability assumed > book value of liability and if, dif erence is guaranteed by Acquiree, then such dif erence is treated as Indemnif cat on Asset.

→ It should be accounted (recognised), only if it is collectable

→ It should be reassessed though PorL, with change in Cont ngent Liability

INDEMNIFICATION ASSET

CASE STUDY - 12

ABC Ltd. acquired a beverage company PQR Ltd. from XYZ Ltd. At the t me of the acquisit on, PQR Ltd. is the defendant in a court case whereby certain customers of PQR Ltd. have alleged that its products contain pest cides in excess of the permissible levels that have caused them health damage. PQR Ltd. is being sued for damages of ₹ 2 crore. XYZ Ltd. has indemnif ed ABC Ltd. for the losses, if any, due to the case for amount up to ₹ 1 crore. The fair value of the cont ngent liability for the court case is ₹ 70 lakh.

How should ABC Ltd. account for the cont ngent liability and the indemnif cat on asset? What if the fair value of the liability is ₹ 1.2 crore instead of ₹ 70 lakh.

ANALYSIS

In the current scenario, ABC Ltd. measures the ident f able liability of ent ty PQR Ltd. At ₹ 70 lakh and also recognises a corresponding indemnif cat on asset of ₹ 70 lakhs on its consolidated balance sheet. The net impact on goodwill from the recognit on of the cont ngent liability and associated indemnif cat on asset is nil.

However, in the case where the liability's fair value is more than ₹ 1 crore ie. ₹ 1.2 crore, the indemnif cat on asset will be limited to ₹ 1 crore only

CASE STUDY - 13

ABC Ltd. pays ₹ 50 crore to acquire PQR Ltd. from XYZ Ltd. PQR Ltd. Manufactured products containing f ber glass and has been named in 10 class act ons concerning the ef ects of these f ber glass. XYZ Ltd. agrees to indemnify ABC Ltd. for the adverse results of any court cases up to an amount of ₹ 10 crore. The class act ons have not specif ed amounts of damages and past experience suggests that claims may be up to ₹ 1 crore each, but that they are of en set led for small amounts.

ABC Ltd. makes an assessment of the court cases and decides that due to the potent al variance in outcomes, the cont ngent liability cannot be measured reliably and accordingly no amount is recognised in respect of the court cases. How should indemnif cat on asset be accounted for?

ANALYSIS

Since no liability is recognised in the given case, ABC Ltd. will also not recognise an indemnif cat on asset as part of the business combinat on account ng

Quest on # 6

If FV of cont ngent liability as on DOA is ₹30 and acquiree had agreed to indemnify 80% and as on subsequent date balance sheet date the FV changes to
(a) ₹ 50 and (b) ₹ 20.

5 *Measurement Period*

A. If at the t me acquiring of assets and liabilit es, FV of such assets and liabilit es is not available as on DOA due to lack of informat on, then the Acquirer shall report in its Financial Statements at Provisional Amounts of the item for which the account ng is incomplete
B. During the measurement period, the acquirer shall adjust the provisional values of assets and liabilit es to its actual fair value and recognise addit onal assets and liabilit es and adjust corresponding GW or CR
C. Measurement period is lower of
   → 12 months from the DOA
   → Date on which facts and informat on required for fair value are available

Assets and Liabilit es were measured at provisional values as on DOA due to lack of informat on Acquirer shall reported in its Financial Statements at Provisional Amounts Addit onal informat on is received af er DOA		
Within 1 year of DOA		Af er 1 year of DOA
Adjust GW or CR	Adjust through P/L	Adjust through P/L

Quest on # 7

Scenario 1:
New informat on on the fair value of and acquired loan
Bank F acquires Bank E in a business combinat on in October 20X1. The loan by Bank E to Borrower B is recognised at its provisionally determined fair value. In December 20X1, F receives Borrower B's f nancial statements for the year ended September 30, 20X1, which indicate signif cant decrease in Borrower B's income from operat ons. Basis this, the fair value of the loan to B at the acquisit on date is determined to be less than the amount recognised earlier on a provisional basis.

Scenario 2:
Decrease in fair value of acquired loan result ng from an event occurring during the measurement period
Bank F acquires Bank E in a business combinat on in October 20X1. The loan by Bank E to Borrower B is recognised at its provisionally determined fair value. In December 20X1, F receives informat on that Borrower B has lost its major customer earlier that month and this is expected to have a signif cant negat ve ef ect on B's operat ons.
Required:
Comment on the treatment done by Bank F

CONCEPT – 12

PURCHASE CONSIDERATION

1 Statement showing calculation of Purchase Consideration

Acquisit on date FV of Assets given by acquirer - Refer note - 1 (dif erence between BV and FV is transferred to P/L)	XXX
Add : Acquisit on date FV of cont ngent considerat on - Refer note – 2 (condit onal)	XXX
Add : Acquisit on date PV of deferred considerat on - Refer note - 3 (uncondit onal but will be paid later)	XXX
Add : Acquisit on date FV of Equity Instrument issued Swap Rat o (SR) x No. of ES of Acquiree x Issue price If, SR is not given then, SR = FV of ES of (Acquiree) / FV of ES of (Acquirer) If, FV of ES is not given then, FV of ES = FV of Net Assets / No. of ES	XXX
Add : Acquisit on date FV of share based awards - Refer note - 4 FV of Original Awards x Expired Period Original VP or Revised Vest ng Period – whichever is higher	XXX
TOTAL PC	XXX
Add : FV of separate transact on cost – Refer note – 5 (Means amount payable due to pre-exist ng relat onship between acquirer and Acquire eg. Court case, debtors, creditors)	XXX
Total Amount Payable	XXX

2 Acquisition date FV of Assets given by acquirer

Quest on # 8

A Ltd acquires B Ltd and the owners of B Ltd are given Land owned by A Ltd in lieu of ent re business of B Ltd. The book value of land is ₹ 100 and its FV is ₹ 1000. Net Assets of B Ltd are ₹ 700.

Journalise in the books of A Ltd.

3 (A) - Contingent Consideration

Init al Recognit on	Subsequent Recognit on	
FV as on DOA shall be included in PC	Financial Liability (payable in cash)	Payable in Equity Shares
NA A/c Dr. XXX To Bank A/c Cash for PC To Prov for CC A/c XXX	If FV increases P/L A/c Dr XX To Prov for CC A/c XX	Changes in FV is to be ignored

Quest on # 9

A agreed to acquire 100% stake in B on the following terms

1. Cash payment of ₹ 15,000
2. An addit onal cash payment of ₹2,500 provided prof t increases by 25% in next three compared to previous year.
3. Net Assets of B as on DOA is ₹10,000
4. FV of cont ngent considerat on af er 1 year is ₹3,300

Journalise

Quest on # 10 **{MTP – SERIES I – NOV – 2019} {RTP – MAY – 2019}**

How cont ngent considerat on payable in relat on to a business combinat on should be accounted for on init al recognit on and at the subsequent measurement as per Ind AS in the following cases:

CASE - 1

On 1 April 2016, A Ltd. acquires 100% interest in B Ltd. As per the terms of agreement the purchase considerat on is payable in the following 2 tranches:

(a) an immediate issuance of 10 lakhs shares of A Ltd. having face value of INR 10 per share;

(b) a further issuance of 2 lakhs shares af er one year if the prof t before interest and tax of B Ltd. for the f rst year following acquisit on exceeds INR 1 crore.

The fair value of the shares of A Ltd. on the date of acquisit on is INR 20 per share. Further, the management has est mated that on the date of acquisit on, the fair value of cont ngent considerat on is ₹ 25 lakhs.

During the year ended 31 March 2017, the prof t before interest and tax of B Ltd. exceeded ₹ 1 crore. As on 31 March 2017, the fair value of shares of A Ltd. is ₹ 25 per share.

CASE - 2

Cont nuing with the fact pat ern in (a) above except for: The number of shares to be issued af er one year is not f xed. Rather, A Ltd. agreed to issue variable number of shares having a fair value equal to ₹ 40 lakhs af er one year, if the prof t before interest and tax for the f rst year following acquisit on exceeds ₹1 crore. A Ltd. issued shares with ₹ 40 lakhs af er a year.

3 *(B) – Contingent Consideration to employees*

CONDITIONS		
Only for employee service	Not linked to service	Employee service and other condit on
Should not be part of PC, it shall be treated as Employee Benef t Expense (EBE)	Part of PC at FV	If Service term < other target term It should be part of PC If Service term > other target term Should not be part of PC, it shall be treated as Employee Benef t Expense (EBE)

CASE STUDY - 14

KKV Ltd acquires a 100% interest in VIVA Ltd, a company owned by a single shareholder who is also the KMP in the Company, for a cash payment of USD 20 million and a cont ngent payment of USD 2 million. The terms of the agreement provide for payment 2 years af er the acquisit on if the following condit ons are met:

- → The EBIDTA margins of the Company af er 2 years af er the acquisit on is 21%.
- → The former shareholder cont nues to be employed with VIVA Ltd for at least 2 years af er the acquisit on. No part of the cont ngent payment will be paid if the former shareholder does not complete the 2 year employment period.

ANALYSIS

In the above scenario the former shareholder is required to cont nue in employment and the cont ngent considerat on will be forfeited if the employment is terminated or if he resigns. Accordingly, only USD 20 million is considered as purchase considerat on and the cont ngent considerat on is accounted as employee cost.

CASE STUDY - 15

Cont ngent considerat on- Payments to employees who are former owners of acquiree ABC Ltd. acquires all of the outstanding shares of XYZ Ltd. in a business combinat on. XYZ Ltd. had three shareholders with equal shareholdings, two of whom were also senior-level employees of XYZ Ltd. and would cont nue as employee post acquisit on of shares by ABC Ltd.

- → The employee shareholders each will receive ₹ 60,00,000 plus an addit onal payment of ₹ 1,50,00,000 to 2,00,00,000 based on a mult ple of earnings over the next two years.
- → The non-employee shareholders each receive ₹ 1,00,00,000.

The addit onal payment of each of these employee shareholders will be forfeited if they leave the employment of XYZ Ltd. at any t me during the two years following its acquisit on by ABC Ltd. The salary received by them is considered reasonable remunerat on for their services.
How much amount is at ributable to post combinat on services?

ANALYSIS

In the instant case, the addit onal considerat on of ₹ 1,50,00,000 to ₹ 2,00,00,000 represents compensat on for post-combinat on employment services, as the same represents that part of the payment which is forfeited if the former shareholder does not remain in the employment of XYZ Ltd. for two years following the acquisit on, hence shall be treated as EBE.
Therefore, only ₹ 60,00,000 is at ributed to considerat on in exchange for the acquired business.

4 Deferred Consideration

- → Uncondit onal Considerat on, which is part of PC payable at a later date i.e af er some years
- → Such Deferred considerat on should be recorded at its Present value.
- → Deferred Considerat on should be unwound every year with interest (PorL) t ll it is paid of .

Quest on # 11

Company A acquires 100% share capital of company B for ₹500 lakhs. It is required to pay 200 lakhs upfront and remaining 300 lakhs af er a period of 2 year, the relevant market rate of interest for an instrument with 2 year maturity is 10% p.a.
What is FV of considerat on?

5 Share Based Awards

Case – 1 – Replacement Award

Acquirer replaces SBP scheme of Acquiree with its own scheme

Pre-combinat on period Included in PC	Post combinat on period Service Cost spread over remaining vest ng period
Acquisit on date FV of share based awards = **FV of Original Awards x Expired Period** / Original Vest ng Period or Revised Vest ng Period – whichever is higher	FV of Original Awards XXX Less : Acquisit on date FV (XXX) Service Cost XXX
NA of Acquiree A/c Dr XXX To MOP of PC A/c XXX To SBP Reserve A/c XXX	EBE A/c Dr XXX To SBP Reserve A/c XXX (transfer EBE to P/L)

Case – 2 – Non-Replacement Award

Acquirer cont nues SBP scheme of Acquiree with its own scheme

In this case employees would be handed over shares of Acquiree and not Acquirer, hence credit SBP Reserve, and such shares would not be owned by acquirer but outsiders i.e NCI ,hence instead of SBP Reserve use NCI.

Quest on # 12

Green ltd acquired Pollut on Ltd as a part of the arrangement Green ltd had to replace the Pollut on Ltd.'s exist ng equity-set led award. The original awards specify a vest ng period of f ve year. At the acquisit on date, Pollut on Ltd employees have already rendered two years of service. As required, Green Ltd replaced the original awards with its own share-based payments awards (replacement award). Under the replacement awards, the vest ng period is reduced to 2 years (from the acquisit on date)

The value (market-based measure) of the awards at the acquisit on date as are as follows

- Original awards : ₹ 500
- Replacement awards: ₹ 600

At the acquisit on date all awards are expected to vest

Quest on # 13

P a real estate company acquires Q another construct on company which has an exist ng equity set led share based payment scheme. The awards vest af er 5 years of employee service. At the acquisit on date, Company Q's employees have rendered 2 years of service. None of the awards are vested at the acquisit on date. P did not replace the exist ng share-based payment scheme but reduced the remaining vest ng period from 3 years to 2 year. Company P determines that the market-based measure of the award at the acquisit on date is ₹ 500.

Quest on # 14

Ent ty X acquired 100% of ent ty Y in a Business combinat on as per Ind AS 103. There is an exist ng Share based plan in Ent ty Y with a vest ng condit on for 3 years in which 2 years has already lapsed at the date of such business acquisit on. Ent ty X agrees to replace the exist ng award for the employee of combined ent ty. The details are as below –

Acquisit on date Fair value of SBP	INR 300
No. of years to Vest af er acquisit on	1 year
Fair Value of award which replaces exist ng	INR 400

Calculate the Share-based payment values as per Ind AS 102?

6 *Separate transaction cost*

Separate Transact on Cost Implies Cost incurred by Acquirer to set le pre-exist ng relat onship liability with Acquiree

In such a situat on

a. PC should be reduced by FV of liability as on DOA
b. Dif erence between Carrying Amount and FV liability should be transferred to PorL

EXAMPLES ON SEPARATE TRANSACTION COST (16,17,18)

1. A ltd is the defendant in a law suit in which company B is a plaint f . A has recognised a liability in the amount of ₹4 lakh related to suit law suit. A acquired B in a business combinat on, and pays cash considerat on cash considerat on of ₹50 lakh to B's shareholder The acquisit on ef ect vely set les the law suit. The FV of law suit as on the date of acquisit on is ₹2.5 lakh.

   Answer
   Hence we can say
   (a) Gain on set lement of law suit is ₹4 lakh - ₹2.5 lakh = ₹1.5 lakh
   (b) Total PC = ₹50 lakh - ₹2.5 lakh = ₹47.5 lakh

2. Progressive Ltd is being sued by Regressive Ltd for an infringement of its Patent. At 31st March, 20X2, Progressive Ltd recognised a ₹ 10 million liability related to this lit gat on. On 30th July, 20X2, Progressive Ltd acquired the ent re equity of Regressive Ltd for ₹ 500 million. On that date, the est mated fair value of the expected set lement of the lit gat on is ₹ 20 million.

   Answer
   (a) Loss on set lement of law suit is ₹20 million - ₹ 10 million = ₹10 million
   (b) Total PC = ₹500 million - ₹20 million = ₹480 million

3. A supplies goods to B at a f xed price under a 10 year contract. The contract contains a clause that permits early terminat on of the contract by A by paying ₹5 lakh to B. Prior to expirat on of contract, ent ty A acquires 100% of equity of B for ₹50 lakh. FV of the contract is est mated to be ₹10 lakh, of which ₹6 lakh relates to unfavourable aspect of the contract to A since market value of similar contracts are lower.

Answer

(a) Loss on Set lement amount = ₹5 lac – 0 = ₹5 lac

(b) Total PC = ₹50 lakh - ₹5 lakh

CONCEPT – 13

GOODWILL OR GAIN ON BARGAIN PURCHASE

1 *Statement of calculation of goodwill or gain on bargain purchase*

NA Acquired	XXX
Less : Purchase Considerat on for business combinat on	(XXX)
Less : FV of Investments already held by as on the DOA Dif erence between BV and FV of such investments will be transferred to PorL or OCI as followed earlier	XXX
Less : FV Of NCI as on DOA	(XXX)
GOODWILL OR GAIN ON BARGAIN PURCHASE (Capital Reserve)	XXX
POINTS TO BE NOTED → It is assumed that Goodwill includes price for assembled workforce → If its distress sale/regulator order, then Gain on Bargain purchase is accumulated through Other Comprehensive Income ❖ **NCI can be valued at** **(a) Fair Value** NCI = No. of Shares of NCI x FV of each share of S **(b) Proport onate share in net assets (PSNA)** NCI = NCI% x Pre Acquisit on NA of S ❖ Quest on remaining silent use PSNA	

Quest on # 15

Company A and company B are in power business. Company A holds 25% of equity of B. on 1st November, A obtains control of B when it acquires a further 65% of shares of B

Considerat on – A transfer's cash of ₹59 lakhs and issues 1 lakh shares of FV of ₹ 10. It consists of 5% of post-acquisit on equity capital of A

Cont ngent considerat on – of ₹ 7,00,000 if company's cumulat ve prof t over next two year exceeds ₹ 70,00,000. As on the DOA it is considered probable and hence FV of cont ngent considerat on is ₹ 3,00,000

Transact on cost – company pays acquisit on related cost of ₹ 1,00,000 NCI – FV of NCI ₹ 7,50,000

Previously held controlling interest – its book value is ₹ 6,00,000 but its FV is ₹ 20,00,000

FV of net ident f able of B as on DOA - ₹ 60,00,000

Calculate PC and GW

Quest on # 16

A company acquired 90% equity interest in company B on 1.4.2010 for a considerat on of ₹ 85 crores in a distress sale. The company valued the FV of NCI and FV of ident f able NA as ₹ 15 crore and ₹ 100 crore respect vely

Calculate goodwill under both methods of valuing NCI

Quest on # 17 **[RTP – MAY – 2018}**

On 1 April 20X1, Alpha Ltd. acquires 80 percent of the equity interest of Beta Pvt. Ltd. in exchange for cash of ₹ 300. Due to legal compulsion, Beta Pvt. Ltd. had to dispose of their investments by a specif ed date. Therefore, they did not have suf cient t me to market Beta Pvt. Ltd. to mult ple potent al buyers. The management of Alpha Ltd. init ally measures the separately recognizable ident f able assets acquired and the liabilit es assumed as of the acquisit on date in accordance with the requirement of Ind AS 103. The ident f able assets are measured at ₹ 500 and the liabilit es assumed are measured at ₹ 100. Alpha Ltd. engages on independent consultant, who determined that the fair value of 20 per cent non-controlling interest in Beta Pvt. Ltd. is ₹ 84. Alpha Ltd. reviewed the procedures it used to ident fy and measure the assets acquired and liabilit es assumed and to measure the fair value of both the non- controlling interest in Beta Pvt. Ltd. and the considerat on transferred. Af er the review, it decided that the procedures and result ng measures were appropriate.

Calculate the gain or loss on acquisit on of Beta Pvt .Ltd .and also show the journal entries for account ng of its acquisit on. Also calculate the value of the non-controlling interest in Beta Pvt. Ltd. on the basis of proport onate interest method, if alternat vely applied?

Quest on # 18 **[RTP – NOV – 2018}**

ABC Ltd. prepares consolidated f nancial statements upto 31st March each year. On 1st July 2017, ABC Ltd. acquired 75% of the equity shares of JKL Ltd. and gained control of JKL Ltd. the issued shares of JKL Ltd. is 1,20,00,000 equity shares. Details of the purchase considerat on are as follows:

1. On 1stJuly, 2017, ABC Ltd. issued two shares for every three shares acquired in JKL Ltd. On 1st July, 2017, the market value of an equity share in ABC Ltd. was ₹ 6.50 and the market value of an equity share in JKL Ltd. was ₹ 6.
2. On 30th June, 2018, ABC Ltd. will make a cash payment of ₹ 71,50,000 to the former share - holders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 2017. On 1st July, 2017, ABC Ltd. would have to pay interest at an annual rate of 10% on borrowings.
3. On 30th June, 2019, ABC Ltd. may make a cash payment of ₹ 3,00,00,000 to the former share - holders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 2017. This payment is cont ngent upon the revenues of ABC Ltd. Growing by 15% over the two-year period from 1st July, 2017 to 30th June, 2019. On 1st July, 2017, the fair value of this cont ngent considerat on was ₹ 2,50,00,000. On 31st March, 2018, the fair value of the cont ngent considerat on was ₹ 2,20,00,000.
5. On 1st July, 2017, the carrying values of the ident f able net assets of JKL Ltd. in the books of that company was ₹ 6,00,00,000. On 1st July, 2017, the fair values of these net assets was ₹ 7,00,00,000. The rate of deferred tax to apply to temporary dif erences is 20%.
6. During the nine months ended on 31st March, 2018, JKL Ltd. had a poorer than expected operat ng performance. Therefore, on 31st March, 2018 it was necessary for ABC Ltd. to recognise an impairment of the goodwill arising on acquisit on of JKL Ltd., amount ng to 10% of its total computed value.

Compute the impairment of goodwill in the consolidated f nancial statements of ABC Ltd. under both the methods permit ed by Ind AS 103 for the init al computat on of the non-controlling interest in JKL Ltd. at the acquisit on date.

Quest on # 19

On 1ST January, 20X1, A Ltd. acquires 80 per cent of the equity interests of B Ltd. in exchange for cash of ₹15 crore. The former owners of B Ltd. were required to dispose of their investments in B Ltd. by a specif ed date, and accordingly they did not have suf cient t me to f nd potent al buyers. A qualif ed valuat on professional hired by the management of A Ltd. measures the ident f able net assets acquired, in accordance with the requirements of Ind AS 103, at ₹ 20 crore and the fair value of the 20 per cent non-controlling interest in B Ltd. at ₹ 4.2 crore.
How should A Ltd. recognise the above bargain purchase?

Quest on # 20

Sita Ltd and Beta Ltd decides to combine together for forming a Dual Listed Corporat on (DLC). As per their shareholder's agreement, both the part es will retain original list ng and Board of DLC will be comprised of 10 members out of which 6 members will be of Sita Ltd and remaining 4 board members will be of Beta Ltd.
The fair value of Sita Ltd is 100 crores and fair value of Beta Ltd is 80 crores. The fair value of net ident f able assets of Beta Limited is 70 crores. Assume non-controlling
Interest (NCI) to be measured at fair value.
Determine the goodwill to be recognised on acquisit on

Quest on # 21

Ent ty A acquires ent ty B. Ent ty A agrees with the former shareholders of ent ty B to pay ₹ 900, with an addit onal payment of ₹ 500 if the subsequent earnings of ent ty B reach a specif ed target in three years. The former shareholders also become employees. On the acquisit on date, the fair value of the net assets of ent ty B amount to ₹ 850, and the fair value of addit onal payment is est mated at ₹ 200.
At the acquisit on date, the out low of addit onal payment is not probable. Over the next three years, the cumulat ve earnings of ent ty B (before considering the ef ects of the addit onal payments) amount to ₹ 1,050. At the end of year three, ent ty A pays ₹ 500 as the condit ons were met.
State the impact on the f nancial posit on and results of classifying the payments as remunerat on and cont ngent considerat on.

Quest on # 22

Bima Ltd. acquired 65% of shares on 1 June, 20X1 in Nafa Ltd. which is engaged in product on of components of machinery. Nafa Ltd. has 1,00,000 equity shares of ₹ 10 each. The quoted market price of shares of Nafa Ltd. was ₹ 12 on the date of acquisit on. The fair value of Nafa Ltd.'s ident f able net assets as on 1 June, 20X1 was ₹ 80,00,000.
Bima Ltd. wired ₹ 50,00,000 in cash and issued 50,000 equity shares as purchase considerat on on the date of acquisit on. The quoted market price of shares of Bima Ltd. on the date of issue was ₹ 25 per share.
Bima Ltd. also agrees to pay addit onal considerat on of ₹ 15,00,000, if the cumulat ve prof t earned by Nafa Ltd. exceeds ₹ 1 crore over the next three years. On the date of acquisit on, Nafa

Ltd. assessed and determined that it is considered probable that the extra considerat on will be paid. The fair value of this considerat on on the date of acquisit on is ₹ 9,80,000. Nafa Ltd. incurred ₹ 1,50,000 in relat on to the acquisit on. It measures Non-controlling interest at fair value.
How will the acquisit on of Nafa Ltd. be accounted by Bima Ltd., under Ind AS 103?
Prepare detailed workings and pass the necessary journal entry.

CONCEPT – 14

ACCOUNTING IN THE BOOKS OF LEGAL ACQUIRER

1 Journals in the books of Legal Acquirer as on the DOA

Net Assets Acquired of Acquiree at FV	Sundry Assets A/c	Dr	XXX
	DTA A/c	Dr	XXX
	To DTL A/c		XXX
	To Sundry Liabilit es A/c		XXX
	To Investments already held A/c		XXX
	To Vendor A/c		XXX
	(being sundry assets and liabilit es acquired at FV)		
	Dif erence in the above entry is GW or CR		
Discharge PC	Vendor A/c	Dr	PC
	Separate transact on cost A/c	Dr	XXX
	To SBP Reserve A/c		XXX
	To Mode of Payment of PC A/c		XXX
Unwinding of Deferred Considerat on	Finance Charge A/c	Dr	XXX
	To Deferred Considerat on A/c		XXX
Other miscellaneous entries	❖ Write of separate transact on cost to P/L ❖ Write of any acquisit on cost to issue debt to P/L ❖ Write of f nance charge to P/L ❖ Revalue (dif erence between FV and BV) investment already held earlier through P/L		

2 Acquisition Related Cost

(a) It is not included in PC and is transferred to PorL

(b) Examples

→ Finder's Fees	→ Legal Fees (Stamp Duty)	→ Bonus paid to employees for doing successful acquisit on
→ Due Diligence Cost	→ Investment Bankers' Fees	

ACQUISITIONRELATE ASSET

CASE STUDY - 19

Should stamp duty paid on acquisit on of land pursuant to a business combinat on be capitalised to the cost of the asset or should it be treated as an acquisit on related cost and accordingly be expensed of ?

ANALYSIS

→ As per Ind AS 103, the acquisit on-related costs incurred by an acquirer to ef ect a business combinat on are not part of the considerat on transferred to PorL

→ The stamp duty payable for transfer of assets in connect on with the business combinat on is an acquisit on-related cost as described under paragraph 53 of Ind AS 103.

→ Stamp duty does not increase the future economic benef ts from the net assets comprising the business (which would be recognised at fair value) and hence cannot be capitalised.

→ Accordingly, stamp duty incurred in relat on to land acquired as part of a business combinat on transact on are required to be recognised as an expense in the period in which the acquisit on is completed.

CASE STUDY - 20

ABC Ltd. acquires PQR Ltd. on 30th June, 20X1. The assets acquired from PQR Ltd. include an intangible asset that comprises wireless spectrum license. For this intangible asset, ABC Ltd. is required to make an addit onal one-t me payment to the regulator in PQR's jurisdict on in order for the rights to be transferred for its use. Whether such addit onal payment to the regulator is an acquisit on-related cost?

ANALYSIS

→ The payment to the regulator represents a transact on cost and will be regarded as acquisit on related cost incurred to ef ect the business combinat on. Applying the requirements of para 53 of Ind AS 103, it should be expensed as it is incurred.

→ Transfer of rights in the instant case cannot be construed to be separate from the business combinat on because the transfer of the rights to ABC Ltd. is an integral part of the business combinat on itself.

→ It may be noted that had the right been acquired separately (i.e. not as part of business combinat on), the transact on cost is required to be capitalised as part of the intangible asset as per the requirements of Ind AS 38, Intangible Assets.

Quest on # 23

A ltd took over business of B ltd on 1.4.2017. Actual control was obtained on 1.8.2017.
Balance Sheet of B limited as on 31.3.2017

Non-Current Asset	
Property Plant and Equipment	7,00,000
Furniture	3,00,000
Current Asset	
Inventory	2,50,000
Trade Receivables	3,50,000
Bank	7,00,000
	23,00,000
Share Capital of ₹10 each	10,000,00
Other Equity	6,00,000
Non-Current Liability	5,00,000
Current Liability	2,000,00
	23,000,00

Other Informat ons:
1. FV of Property Plant and Equipment and Furniture is ₹ 9,00,000 and ₹ 2,00,000 respect vely
2. FV of Inventory and Trade Receivables is ₹3,00,000 and 3,50,000 respect vely
3. Liabilit es were assumed at carrying amount
4. A ltd agreed to pay following considerat on
(a) Cash of ₹ 5 per share to shareholder of B ltd
(b) 2 shares of ₹ 10 each for every 5 ES held, FV of ₹12 to shareholders of B ltd
(c) ₹ 5,00,000 will be paid to promoters af er 3 year Discount ng rate 8%
(d) ₹ 1,00,000 will be paid to directors, if combined earnings is increased by 25%. FV of this considerat on as on 1.8.2017 is ₹35,000
(e) One court case between A Ltd and B Ltd will now be withdrawn. A Ltd made a provision for ₹ 40,000 for damages. FV of such damages on 1.8.2017 is ₹ 90,000
(f) B ltd had share based awards whose FV on 1.8.2017 was ₹ 3,00,000 with vest ng period of 3 years and expired period was one year. A Ltd replaced these awards with new awards whose FV was ₹ 3,50,000 and remaining vest ng period decided was 4 year
5. Acquisit on cost ₹ 1,00,000 paid by A Ltd

Quest on # 23

Mini Limited is a manufacturing ent ty in text le industry. Mini Limited decided to reduce the cost of manufacturing by set ng up its own power plant for their capt ve consumpt on. As per market research report, there was non-operat onal power plant in nearby area. Hence, it decided to acquire that power plant which was having capacity of 80MW along with all ent re labour force. This Power ent ty was owned by another ent ty Max Limited. Mini Limited approached Max Limited for acquisit on of 80MW power plant at following terms:
1. Mini Limited will seek an independent valuat on for determining fair value of 80MW power plant.
2. Value of other Non-current assets acquired, and Non–current f nancial liabilit es assumed is ₹ 11.10 million and ₹ 32 million respect vely.
3. Considerat on agreed between both the part es is at ₹ 51 million.

Both the part es agreed to the terms and entered into agreement on 1st April, 20X1 with immediate ef ect.

Due to unavoidable circumstances, valuat on could not be completed by the t me Max Limited f nalizes its f nancial statements for the year ending 31st March, 20X1.

Max Limited's annual f nancial statements records the fair value of 80 MW Power Plant at ₹ 46.90 million with remaining useful life at 40 years.

Max Limited also has license to operate that power plant unrecorded in books. As on 31st March, 20X1, it has fair value of ₹ 5 million.

Six months af er acquisit on date, Mini Limited received the independent valuat on, which est mated the fair value of 80MW Power Plant as ₹ 54.90 million.

CFO of Mini Limited, wants you to work upon following aspects of the transact on:

a. Determine whether transact on should be accounted as asset acquisit on or business combinat on.
b. Calculate Goodwill / Bargain Purchase due to the above acquisit on.
c. Pass necessary journal ent t es in the books of Mini Limited as per Ind AS 103 and prepare balance sheet as on date of acquisit on.
d. Determine whether any adjustment is required in case of valuat on received subsequent to acquisit on. If yes, pass the necessary entries in the books of Mini Limited.

Balance Sheet of Mini Limited as at 31st March, 20X1

PARTICULARS	
ASSETS	
Non-current assets	
Property, plant and equipment	2,158
Capital work-in-progress	12
Deferred Tax Assets (Net)	324
Other non-current assets	25
Total non-current assets	2,519
Current assets	
Inventories	368
Financial assets	
(i) Investments	45
(ii) Trade Receivables	762
(iii) Cash and Cash Equivalents	110
(iv) Bank balances other than (iii) above	28
(v) Other f nancial assets	267
Total current assets	1,580
Total assets	4,099
EQUITY AND LIABILITIES	
Equity	
Equity Share Capital	295
Other equity	
Equity component of compound f nancial Inst	717
Reserves and surplus	2,481
Total equity	3,493
Liabilit es	
Non-current liabilit es	
Financial Liabilit es	
Borrowings	
Total non-current liabilit es	268
Current liabilit es	
Financial Liabilit es	
(i) Trade payables	302

Other current liabilit es	36
Total current liabilit es	338
Total liabilit es	606
Total equity and liabilit es	4,099

Quest on # 25

The balance sheet of P and D as on 31.3.20X2 is given below.

	P	D
Property, Plant and Equipment	300	5000
Investments	400	100
Current Asset		
Inventory	250	150
Financial asset	400	230
Trade receivable	450	300
Bank	200	100
	2000	1380
Equity share capital of ₹10	500	400
Reserves and surplus	730	180
OCI	80	45
Non-Current Liabilit es		
Long term borrowings	250	200
Long term provision	50	70
Deferred tax	40	35
Current Liabilit es		
Short term borrowings	100	150
Trade payable	250	300
	2000	1380

Other Informat on

a) P acquired 70% of D on 1.4.2001 by issuing its own shares in the rat o 1ES for every 2ES. FV of ES of P is ₹40

b) The FV exercise resulted in following

1. PPE FV as on 1.4.2001 - ₹ 350 lakhs
2. P agreed to pay higher of ₹ 35 lakhs or 25% of any excess prof t of 1st year af er acquisit on over its prof ts in preceding 12 months before acquisit on
   The addit onal amount will fall due af er 2 years D ltd has earned a prof t of ₹ 10 lakh in preceding 12 months before acquisit on and expects to another ₹ 20 lakh
3. P agreed to pay one of the founder shareholder ₹20 lakh if he stays with the company for two years af er acquisit on
4. D had certain equity-based awards which got replaced by the new awards issued by P. as per the original awards the vest ng period was 4 years and as on the date of DOA the employee of D had already served 2 year. As per replaced awards the vest ng period has been reduced to one year from the DOA. The FV of the awards as on DOA was as under
   Original award ₹ 5
   Replacement award ₹ 8
5. D had pending law suit with a customer who had made claim of ₹ 50. Management reliably est mated FV of the liability to be ₹ 5
6. The applicable tax rates for both the ent t es is 30%

You are required to prepare opening consolidated balance sheet of P as on 1.4.2002

Quest on # 26

'High Speed Limited' manufactures and sells cars. The Company wants to foray into the two-wheeler business and therefore it acquires 30% interest in Quick Bikes Limited for₹ 5,00,000 as at 1st November, 20X1 and an addit onal 25% stake as at 1st January, 20X2 for ₹ 5,00,000 at its fair value.

Following is the Balance Sheet of Quick Bikes Limited as at 1st January, 20X2:

Liabilit es	Carrying Value	Fair value	Assets	Carrying value	Fair value
Share capital	1,00,000		Plant and Equipment	3,50,000	7,50,000
Reserves	5,50,000		Investment in bonds	4,00,000	5,00,000
Trade payables	1,50,000	1,50,000	Trade Receivables	50,000	50,000
Total	8,00,000		Total	8,00,000	

Quick Bikes Limited sells the motorcycles under the brand name 'Super Start' which has a fair value of ₹ 3,50,000 as at 1st January, 20X2. This is a self- generated brand therefore Quick Bikes Limited has not recognized the brand in its books of accounts. Following is the separate balance sheet of High Speed Limited as at 1st January, 20X2:

Liabilit es	Amount	Asset	Amount
Share capital	5,00,000	Plant and equipment	13,50,000
Reserves	15,00,000	Investment in Quick Bike	10,00,000
Short term loans	4,00,000	Trade Receivables	80,000
Trade payables	3,00,000	Cash and bank balances	5,20,000
Other liabilit es	2,50,000		
Total	29,50,000	Total	29,50,000

In relat on to the acquisit on of Quick Bikes Limited, you are required to:

1. Pass the necessary journal entries to give ef ect of business combinat on in accordance with Ind AS 103 as at acquisit on date 1st January, 20X2. NCI is measured by the ent ty at fair value. Provide working notes, Ignore deferred tax implicat on; and
2. Prepare a consolidated balance sheet of High Speed Limited as at 1st January, 20X2

Quest on # 20

H Ltd. acquired equity shares of S Ltd., a listed company, in two tranches as ment oned in the below table:

Date	Equity Stake Purchased	Remarks
1st Nov ,2006	15%	The shares were purchased on the quoted prices on the stock exchange on relevant dates
1st Jan , 2007	45%	

Both the above-ment oned companies have Rupees as their funct onal currency. Consequently, H Ltd. acquired control over S Ltd. on 1st January, 2007.

Following is the Balance Sheet of S Ltd. as on that date

Figures in crores

Assets	Carrying value	Fair value
Non-Current Asset		
- Property, Plant and Equipment	40.00	90.00

- Intangible Assets	20.00	30.00
- Financial Assets		
• Investments	100.00	350.00
Current Assets		
- Inventories	20.00	20.00
- Financial Assets		
• Trade Receivables	20.00	20.00
• Cash held in funct onal currency	4.00	4.00
- Other Current Asset	-	-
• Non-Current Assets held for sale	4.00	4.00
	208.00	
EQUITY AND LIABILITIES		
- Equity Share Capital of ₹ 100 each	12.00	50.40
- Other Equity	141.00	
Non-Current Liabilit es		
Financial Liabilit es	-	-
• Borrowings	20.00	20.00
Current Liabilit es		
- Financial Liabilit es		
• Trade Payables	28.00	28.00
- Provision for warrant es	3.00	3.00
- Current tax liabilit es	4.00	4.00
	208.00	

Other informat on:

1. Property, plant and equipment in the above Balance Sheet include leasehold motor vehicles having carrying value of ₹ 1 crore and fair value of ₹ 1.2 crore.
2. The date of incept on of the lease was 1st April, 20X0. On the incept on of the lease, S Ltd. had correctly classif ed the lease as a f nance lease. However, if facts and circumstances as on 1st April, 2007 are considered, the lease would be classif ed as an operat ng lease.
3. Following is the statement of cont ngent liabilit es of S Ltd. as on 1st January, 2007

Part culars	Fair value (₹₹in crore)	Remarks
Law suit f led by a customer for a claim of ₹ 2 crore	0.5	It is not probable that an out low of resources embodying economic benef ts will be required to set le the claim. Any amount which would be paid in respect of law suit will be tax deduct ble.
Income tax demand of ₹ 7 crore raised by tax authorit es; S Ltd. has challenged the demand in the court.	2.0	It is not probable that an out low of resources embodying economic benef ts will be required to set le the claim.

4. In relat on to the above-ment oned cont ngent liabilit es, S Ltd. has given an indemnif cat on undertaking to H Ltd. up to a maximum of ₹ 1 crore.
5. ₹ 1 crore represents the acquisit on date fair value of the indemnif cat on undertaking.
6. Any amount which would be received in respect of the above undertaking shall not be taable.

7. The tax bases of the assets and liabilit es of S Ltd. is equal to their respect ve carrying values being recognised in its Balance Sheet.
8. Carrying value of non-current asset held for sale of ₹ 4 crore represents its fair value less cost to sell in accordance with the relevant Ind AS.
9. In considerat on of the addit onal stake purchased by H Ltd. on 1st January, 2007, it has issued to the selling shareholders of S Ltd. 1 equity share of H Ltd. for every 2 shares held in S Ltd. Fair value of equity shares of H Ltd. as on 1st January, 2007 is ₹ 10,000 per share.
10. On 1st January, 2007, H Ltd. has paid ₹ 50 crore in cash to the selling shareholders of S Ltd.
11. Addit onally, on 31st March, 2009, H Ltd. will pay ₹ 30 crore to the selling shareholders of S Ltd. if return on equity of S Ltd. for the year ended 31st March, 2009 is more than 25% per annum.
12. H Ltd. has est mated the fair value of this obligat on as on 1st January, 2007 and 31st March, 2007 as ₹ 22 crore and ₹ 23 crore respect vely. The change in fair value of the obligat on is at ributable to the change in facts and circumstances af er the acquisit on date.
13. Quoted price of equity shares of S Ltd. as on various dates is as follows

    As on November, 2006 ₹ 350 per share
    As on January, 2007 ₹ 395 per share
    As on 31st March, 2007 ₹ 420 per share
14. On 31st May, 2007, H Ltd. learned that certain customer relat onships exist ng as on 1st January, 2007, which met the recognit on criteria of an intangible asset as on that date, were not considered during the account ng of business combinat on for the year ended 31st March, 2007. The fair value of such customer relat onships as on 1st January, 2007 was ₹ 3.5 crore (assume
6. that there are no temporary dif erences associated with customer relat ons; consequently, there is no impact of income ta0es on customer relat ons)
15. On 31st May, 2007 itself, H Ltd. further learned that due to addit onal customer relat onships being developed during the period 1st January, 2007 to 31st March, 2007, the fair value of such customer relat onships has increased to ₹ 4 crore as on 31st March, 2007.
16. On 31st December, 2007, H Ltd. has established that it has obtained all the informat on necessary for the account ng of the business combinat on and that more informat on is not obtainable.
17. H Ltd. and S Ltd. are not related part es and follow Ind AS for f nancial report ng. Income tax rate applicable is 30%.

You are required to provide your detailed responses to the following, along with reasoning and computat on notes:

(a) What should be the goodwill or bargain purchase gain to be recognised by H Ltd. in its f nancial statements for the year ended 31st March, 2007. For this purpose, measure non-controlling interest using proport onate share of the fair value of the ident f able net assets of S Ltd.

(b) Will the amount of non-controlling interest, goodwill, or bargain purchase gain so recognised in (a) above change subsequent to 31st March, 2007? If yes, provide relevant journal entries.

(c) What should be the account ng treatment of the cont ngent considerat on as on 31st, March, 2007?

Quest on # 28

Company X is engaged in the business of explorat on & development of Oil & Gas Blocks. Company X currently holds part cipat ng interest (PI) in below ment oned producing Block as follows:

Block Name	Company X	Company X	Company X	Total
AWM/01	30%	60%	10%	100%

For the above Block, Company X, Y & Z has entered into unincorporated Joint Venture. Company Y is the Operator of the Block AWM/01. Company X & Company Z are the Joint Operators. Company Y incurs all the expenditure on behalf of Joint Venture and raise cash call to Company X & Company Z at each month end in respect of their share of expenditure incurred in Joint Venture. All the manpower and requisite facilit es / machineries owned by the Joint venture and thereby owned by all the Joint Operators.

For past few months, due to liquidity issues, Company Z defaulted in payment of cash calls to operators. Therefore, company Y (Operator) hasissued not ce to company Z for withdrawal of their part cipat ng right fromon 01.04.20 X1. However, company Z has f led the appeal with arbitrator on 30.04.20 X1.

Financial performance of company Z has not been improved in subsequent months and therefore company Z has decided to withdraw part cipat ng interest rights from Block AWM/01 and entered into sale agreement with Company X & Company Y. As per the terms of the agreement, dated 31.5.20X1, Company X will receive 33.33% share & Company Y will receive 66.67% share of PI rights owned by Company Z. Company X is required to pay ₹ 1 Lacs against 33.33% share of PI rights owned by Company Z.

Af er signing of sale agreement, Operator (company Y) approach government of India for modif cat on in PSC (Product on Sharing Contract) i.e. removal of Company Z from PSC of AWM/01 and government has approved this transact on on 30.6.20 X1. Government approval for the modif cat on in PSC is essent al given the industry in which the joint-operators operate.

BALANCE Sheet of Company X and & Company Z are as follows

Part culars	Company X		Company Z	
	31.5.2021	30.6.2021	31.5.2021	30.6.2021
	₹	₹	₹	₹
Assets				
Non-Current Assets				
PPE	5,00,000	10,00,000	1,50,000	3,00,000
Right to Use Asset	1,00,000	2,00,000	10,000	20,000
Development of CWIP	50,000	1,00,000	50,000	1,00,000
Financial Asset				
Loan Receivable	25,000	50,000	25,000	50,000
Total Non-Current Asset	6,75,000	13,50,000	2,35,000	4,70,000
Current Asset				
Inventories	1,00,000	2,00,000	15,000	30,000
Financial Assets				
Trade Receivables	1,50,000	3,00,000	50,000	1,00,000
Cash & Cash Equivalent	2,00,000	4,00,000	1,00,000	2,00,000
Other Current Assets	2,25,000	50,000	25,000	50,000
Total current Assets	6,75,000	9,50,000	1,90,000	3,80,000
Total Assets	13,50,000	23,00,000	4,25,000	8,50,000
Equity & Liabilit es				

Equity				
Equity Share Capital	3,00,000	3,00,000	1,00,000	1,00,000
Other Equity	2,00,000	3,00,000	75,000	2,50,000
Total Equity	5,00,000	6,00,000	1,75,000	3,50,000
Liabilit es				
Non-Current Liabilit es				
Provisions	4,00,000	8,00,000	1,00,000	2,00,000
Other Liabilit es	1,50,000	3,00,000	50,000	1,00,000
Total Non-Current Liabilit es	5,50,000	11,00,000	1,50,000	3,00,000
Current liabilit es				
Financial Liabilit es				
Trade Payables	3,00,000	6,00,000	1,00,000	2,00,000
Total Current Liabilit es	3,00,000	6,00,000	1,00,000	2,00,000
Total Liabilit es	13,50,000	23,00,000	4,25,000	8,50,000

Addit onal Informat on:

1. Fair Value of PPE & Development CWIP owned by Company Z as per Market part cipant approach is ₹ 5,00,000 & ₹ 2,00,000 respect vely.
2. Fair Value of all the other assets and liabilit es acquired are assumed to be at their carrying values (except cash & cash equivalents). Cash and cash equivalents of Company Z are not to be acquired by Company X as per the terms of agreement.
3. Tax rate is assumed to be 30%
4. As per Ind AS 28, all the joint operators are joint ventures whereby each part es that have joint control of the arrangement have rights to the net assets of the arrangement and therefore every operator records their share of assets and liabilit es in their books

You need to determine the following:

1. Whether the above acquisit on falls under business or asset acquisit on as def ned under business combinat on standard Ind AS 103?
2. Determine the acquisit on date in the above transact on.
3. Prepare Journal entries for the above -ment oned transact on.
4. Draf the Balance Sheet for Company X based on your analysis in Part 1 above as at acquisit on date

UNIT - III

REVERSE ACQUISITION

CONCEPT – 15

SOME BASICS OF REVERSE ACQUISITION

1. It means where legal acquirer is dif erent from account ng acquirer.
2. Account ng Acquirer is the ent ty which has more shareholding percentage in combined ent ty
3. Legal Acquirer is the ent ty which issues shares to Acquiree Company to take over the business

CONCEPT – 16

RULES OF REVERSE ACQUISITION

1. PC should f ow to only Account ng Acquiree
2. Account ng Acquirer's Assets, Liabilit es, Share capital and Reserves should be recorded in Legal Acquirer books at Book Value
3. Account ng Acquiree's Assets, Liabilit es and PC should be recorded in Legal Acquirer books at Fair Value, dif erence should be transferred to Goodwill or Capital Reserve

CONCEPT – 17

TYPES OF REVERSE ACQUISITION

Reverse acquisit on can be of two types

- Amalgamat on of two companies
- Absorpt on

CONCEPT – 18

STEPS OF REVERSE ACQUISITION

STEPS – 1	Ident fy Account ng Acquirer • Legal Acquirer is the ent ty which is takes over the business • Account ng Acquirer is the ent ty which has more shareholding percentage in combined ent ty
STEPS – 2	Calculate FV of shares based on FV of ent t e FV = FV of Net Asset / No. of Equity shares
STEPS – 3	Calculate PC • No. of shares to be issued = FV of ES of Acquiree 0 No. of ES of Acquiree / FV of Shares of Acquirer • PC = No. of shares to be issued 0 FV of ES of Acquirer
STEPS – 4	Account ng in the books of Legal Acquirer (means Account ng Acquiree) 1. Close balance sheet in its books at Book Value Share Capital A/c Dr XXX Reserves A/c Dr XXX Liabilit es A/c Dr XXX To Assets A/c A/c XXX XXX Above entry will be passed only in quest ons is of absorpt on. Pass Acquisit on entries given below, whether amalgamat on or absorpt on. 2. Takeover of Assets, liabilit es and Share Capital of Acquirer at book value Assets A/c Dr XXX To Share Capital A/c XXX To Reserves A/c XXX To Liabilit es A/c XXX 3. Takeover of Assets, liabilit es and PC of Acquiree at FV Assets A/c Dr XXX To Liabilit es A/c XXX To Vendor A/c XXX (dif erence is Goodwill or Capital Reserve) 4. Discharge of PC Vendor A/c Dr XXX To Share Capital A/c XXX
STEPS – 5	Balance sheet in the books of Legal Acquirer

Quest on # 29

A and B has the following balance sheet as on 31.03.2017

	A LTD	B LTD
Non-Current Asset	5,00,000	4,00,000
Current Asset	4,00,000	3,00,000
	9,00,000	4,00,000
Equity Share Capital of ₹10 each	3,00,000	4,00,000
Reserves and Surplus	2,00,000	2,50,000
Liability	4,00,000	50,000
	9,00,000	4,00,000

Fair value of shares of A Ltd and B Ltd is ₹20 and ₹25 respect vely. C Ltd was formed to takeover A Ltd and B Ltd, necessary shares were issued.
Prepare Balance sheet of C Ltd.

Quest on # 30

A and B has the following balance sheet as on 31.03.2017

	A LTD	B LTD
Non-Current Asset	15,00,000	16,00,000
Current Asset	5,00,000	6,00,000
	20,00,000	22,00,000
Equity Share Capital of ₹10 each	7,00,000	5,00,000
Reserves and Surplus	3,00,000	4,00,000
Liability	10,00,000	13,00,000
	20,00,000	22,00,000

A Ltd and B Ltd were merged to form C Ltd. Agreed number of shares issued for
A Ltd : 3ES for 2ES and B 2ES for 1ES. Fair Value of Non-Current Asset of A Ltd and B Ltd is ₹17,00,000 and ₹ 19,00,000 respect vely.
Fair value of Equity Shares of A ltd is ₹ 15
Fair value of Equity Shares of B ltd is ₹ 12

Quest on # 31

A and B has the following balance sheet as on 31.03.2017

	A LTD	B LTD
Non-Current Asset	20,00,000	15,00,000
Current Asset	6,00,000	4,00,000
	20,00,000	19 ,00,000
Equity Share Capital of ₹10 each	10,00,000	8,00,000
Reserves and Surplus	6,00,000	4,00,000
Liability	10,00,000	7,00,000
	26,00,000	22,00,000

	A LTD	B LTD
FV of PPE	₹ 22,00,000	₹ 20,00,000
FV of Goodwill	₹ 5,00,000	₹ 3,00,000

PC is based on Intrinsic Values.
A Ltd and B Ltd were merged to form C Ltd.
Prepare Balance Sheet of C Ltd.

Quest on # 32

A and B has the following balance sheet as on 31.03.2017

	A LTD	B LTD
Non-Current Asset	5,00,000	7,00,000
Current Asset	3,00,000	4,00,000
	8,00,000	11,00,000
Equity Share Capital of ₹10 each	2,00,000	1,50,000
Reserves and Surplus	1,00,000	5,00,000
Liability	5,00,000	4,50,000
	8,00,000	11,00,000

A Ltd took over B Ltd. Fair Value of shares is ₹ 20 and ₹ 25. Swap rat o is 5 ES for every 2 ES.
Fair Value of PPE of A Ltd and B Ltd is ₹ 6,00,000 and ₹ 8,00,000 respect vely
Prepare Balance Sheet of A Ltd

Quest on # 33

A0 Ltd and B0 Ltd are amalgamated on and from 1st January 2002. A new company AB0 Ltd was formed to take over the business of exist ng companies

	A LTD	B LTD
Non-current Asset		
Property, Plant and Equipment	8,500	7,500
Financial Asset – Investment	1,050	850
Current Asset		
Inventory	1,250	2,750
Trade Receivable	1,800	4,000
Cash and Cash Equivalent	450	400
	13,050	15,200
Equity and Liabilit es		
Equity share capital of ₹10 each	6,000	7,000
Other equity	3,050	3,000
Non-Current Liabilit es		
Financial Liabilit es – Borrowings	3,000	4,000
Current Liabilit es		
Trade Payables	1,000	1,500
	13,050	15,200

AB0 transfers requisites number of shares to discharge the claims of the equity shareholder of transferor companies
Prepare a note showing calculat on of PC and draf Balance Sheet of AB0 Ltd, assuming B0 is larger ent ty and, and their management will take control of the ent ty

FV of net assets is as under

	A0 LTD	B0 LTD
Fixed asset	9,500	1,000
Inventory	1,300	2,900
FV of business	11,000	14,000

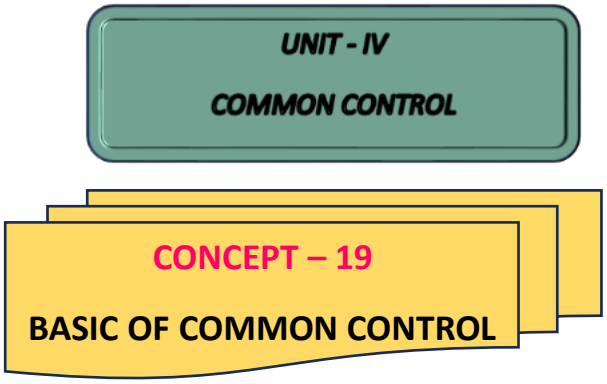
Quest on # 34

On 30th September A issues 2.5 shares in exchange for each share of B. Therefore, A issues 150 shares in exchange of 60 shares of B

FV of each share of B as on 30.9.2001 is ₹ 40 and the quoted market price of A's share is as on that date is ₹ 16

FV of A's Non-Current Asset is ₹ 1,500 as on 30.9.2001

	A Ltd Legal Parent Account ng Acquiree	B Ltd Legal Subsidiary Account ng Acquirer
Non-Current Asset Current Asset	1,300 500	3,000 700
	1,800	3,700
Equity Share Capital of ₹10 each Reserves and Surplus Liability	300 (100 shares) 800 700	600 (60 shares) 1,400 1,700
	1,800	3,700



1 MEANING

Appendix C to Ind AS 103 def nes Common Control **Business Combinat on as a business combinat on** involving ent t es or businesses in which all the combining ent t es or businesses are ult mately controlled by the same party or part es {group of individuals act ng together under a contractual arrangement, having the power to govern its f nancial and operat ng policies so as to obtain benef ts from its act vit es} both before and af er the business combinat on, and that **control is not transitory.**

A Business Combinat on in which all combining ent t es or businesses are ult mately "controlled" by same part es before and af er combinat on, such transact ons are accounted for applying Appendix C to Ind AS 103 by Pooling Interest Method.

CASE STUDY - 22

ABC Ltd. and XYZ Ltd. are owned by four shareholders B, C, D and E, each of whom holds 25% of the shares in each company. However, there are no agreements between any of the shareholders that they will exercise their vot ng power jointly.

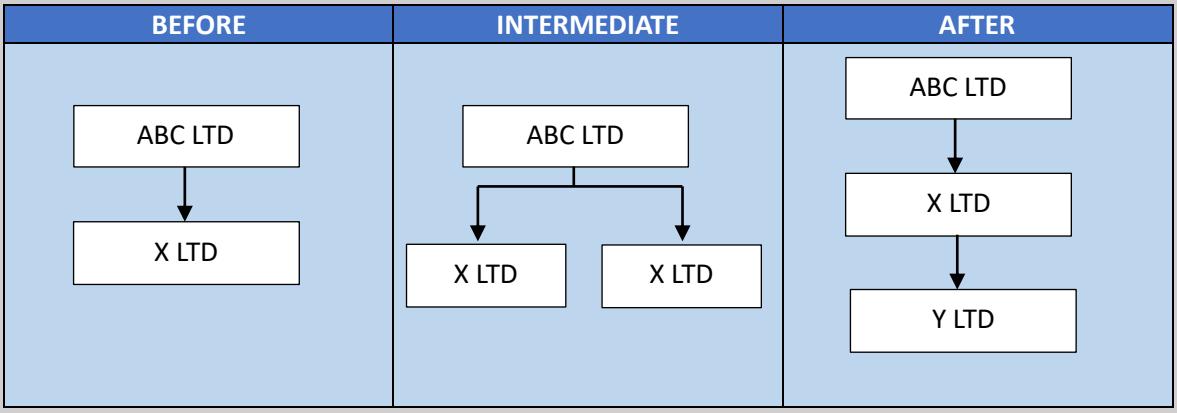
Whether ABC Ltd. and XYZ Ltd. are under common control?

ANALYSIS

In the present case, there is no contractual arrangement between the shareholders who exercise control collect vely over either company. Thus, ABC Ltd. and XYZ Ltd. are not considered to be under common control even if there is an established pat ern of vot ng together

CASE STUDY - 23

ABC Ltd. had a subsidiary, namely, X Ltd. which was acquired on 1st April, 2XX0. ABC Ltd. acquires all of the shares of Y Ltd. on 1st April, 2X17. ABC Ltd. transfers the shares in Y Ltd. to X Ltd. on 2nd April, 2X17. How should the above transfer of Y Ltd. into X Ltd. be accounted for in the consolidated f nancial statements of X Ltd.?



ANALYSIS

Based on above, if the intermediate step had been omit ed and instead X Ltd. Had been the ABC group's vehicle for the acquisit on of Y Ltd. - i.e. going straight to the 'af er' posit on - then X Ltd. would have been ident f ed as the acquirer. Considering X Ltd. and Y Ltd. are under common control (with common parent), it might seem that acquisit on account ng is not required because of the specif c requirement for common control business combinat on. However, X Ltd. should be ident f ed as the acquirer and should account for its combinat on with Y Ltd. using acquisit on account ng. This is because X Ltd. would have applied acquisit on account ng for Y Ltd. if X Ltd. had acquired Y Ltd directly rather than through ABC Ltd. Acquisit on account ng cannot be avoided in the f nancial statements of X Ltd. simply by placing X Ltd. and Y Ltd. under the common control of P shortly before the transact on.

CASE STUDY - 24

How will the f nancial statement of the prior periods be restated under common control in the following scenarios:

(a) Common Control period extends beyond the start of comparat ve period XYZ Ltd acquired PQR Ltd in a common control transact on on 1 October 20X9. The year-end of XYZ Ltd is 31 March. Both XYZ Ltd and PQR Ltd have been controlled by shareholders since their incorporat on.
(b) Common Control period started in the comparat ve period ABC Ltd acquired DEF Ltd in a common control transact on on 1 October 20X9. The year end of ABC Ltd is 31 March. Both ABC Ltd and DEF Ltd are controlled by shareholder A. A made investment in ABC Ltd in 20X0 and made investment in DEF Ltd on 1 October 20X8

ANALYSIS

Appendix C to Ind AS 103 states that the f nancial informat on in the f nancial statements in respect of prior periods should be restated as if the business combinat on had occurred from the beginning of the preceding period in the f nancial statements, irrespect ve of the actual date of the combinat on. However, if business combinat on had occurred af er that date, the prior period informat on shall be restated only from that date.
(a) In accordance with Paragraph 9(iii) above, the ent ty will be required to restate its f nancial statements as if the business combinat on had occurred from the beginning of the preceding period in the f nancial statements, accordingly in the present case XYZ Ltd will have to restate its comparat ves for the f nancial year 20X8-20X9 as if the acquisit on had occurred before 1 April 20X8. Addit onally, the results of current year of PQR Ltd will be required to include XYZ's f nancial statements for the period from 1 April 20X9 to 30 September 20X9.
(b) In accordance with paragraph 9(iii) above, ABC Ltd will have to restate its comparat ves for the f nancial year ended 20X8-20X9 as if the acquisit on had occurred on 1 October 20X8, but not earlier. Addit onally, the results of current year of DEF Ltd will be required to include the f nancial statements of ABC Ltd for the period from 1 April 20X9 to 1 October 20X9.

CASE STUDY - 25

Ent ty A owns 100% equity shares of ent ty B since 01.04.20X1. Ent ty A arranges loan funding from a f nancial inst tut on in a new wholly-owned subsidiary called “Ent ty C”. The loan is used by Ent ty C to acquire 100% shareholding in ent ty B, for cash considerat on of ₹ 2,00,000. Ent ty A applies Ind AS 103 to account for common control transact ons and Ent ty C will adopt the same policy. Fair Value of Net ident f able Assets is ₹ 1,50,000 and Carrying Value of Net Ident f able Assets is ₹ 1,00,000.
How will Ent ty C apply acquisit on account ng in its consolidated f nancial statements?

ANALYSIS

As per para 2 of appendix C of Ind AS 103, Common control business combinat on means a business combinat on involving ent t es or businesses in which all the combining ent t es or businesses are ult mately controlled by the same party or part es both before and af er the business combinat on, and that control is not transitory. In the above scenario, the Ent ty A controls Ent ty B before and af er the acquisit on. Af er acquisit on, ent ty A controls ent ty B through ent ty C. As per para 8 of appendix C of Ind AS 103, Business combinat ons involving ent t es or businesses under common control shall be accounted for using the pooling of interest method. As per para 9(i) of appendix C of Ind AS 103, the pooling of interest method is considered to involve the assets and liabilit es of the combining ent t es are ref ected at their carrying amounts.
Based on the above analysis, Ent ty C cannot be the acquirer. Ent ty A has created Ent ty C and is the seller, so Ent ty C has ef ect vely been formed and issued shares to ef ect the business combinat on. Ent ty C is not a business and the transact on between ent ty B and Ent ty C is not a business combinat on. It is a reorganizat on of ent ty B. As a result, ent ty B’s assets and liabilit es

are included in Ent ty C consolidated f nancial statements at their pre-combinat on carrying amounts without a fair value uplif .

CASE STUDY - 26

Ent ty A and ent ty B provide construct on services in India. Ent ty A is owned by a group of individuals, none of whom has control and does not have a collect ve control agreement. Ent ty B is owned by a single individual, Mr. Ram. The owners of ent t es A and B have decided to combine their businesses. The considerat on will be set led in shares of ent ty B. Ent ty B issues new shares, amount ng to 40% of its issued share capital, to its controlling shareholder, Mr. Ram. Mr. Ram then transfers the shares to the owners of ent ty A in exchange for their interest in ent ty A. At this point Mr. Ram controls both ent t es A and B, owning 100% of ent ty A and 71.42% of ent ty B. Mr. Ram had a controlling interest in both ent ty A and ent ty B before and af er the contribut on.
Is the combinat on of ent t es A and B a combinat on of ent t es under common control?

ANALYSIS

No. This is not a business combinat on of ent t es under common control. Mr. Ram's control of both ent t es before the business combinat on was transitory. The substance of the transact on is that ent ty B has obtained control of ent ty A. Ent ty B accounts for this transact on as a business combinat on under Ind AS 103 using acquisit on account ng

CONCEPT – 20

POOLING OF INTEREST METHOD

1 FUNDAMENTALS OF POOLING INTEREST METHOD OF ACCOUNTING

- The Assets and Liabilit es of combining ent t es are shown at their e0ist ng carrying amount.
- PC may consist of Securit es at nominal Value, Cash or Other Assets
- The balance of retained earnings of transferor is aggregated with corresponding balance appearing in the f nancial statements of transferee
- The dif erence between PC and Share Capital of transferor shall be transferred to Capital Reserve

2 IN THE BOOKS OF COMPANY

Sundry Liabilit es	A/c Dr	XXX	
Reserves	A/c Dr	XXX	
Result ng Co.	A/c Dr	PC	
To Sundry Assets	A/c		XXX

(being division demerged)
Assets and liabilit es are at BV and Dif erence is transferred to CR

PC received	A/c Dr	XXX	
To Result ng Co.	A/c		XXX

(Being PC received)

Capital Reserve	A/c Dr	XXX	
To PC Received	A/c		XXX

(if PC is given to members of demerged to as Dividend as per Ind AS 105)

3 IN THE BOOKS OF MERGED COMPANY

Sundry Assets A/c	Dr	XXX	
To Sundry Liabilit es	A/c		XXX
To Reserves/Surplus	A/c		XXX
To Vendor A/c PC			

(being division demerged)
Assets and liabilit es at BV and dif erence is Capital Reserve

Vendor A/c	Dr XXX	
To Share A/c		XXX

CONCEPT – 21

MERGING OF TWO SUBSIDIARIES

1 FUNDAMENTALS OF MERGING OF TWO SUBSIDIARIES

→ If two subsidiaries are merged to form a new subsidiary then it is also considered as common control transact on and
→ PC = share capital of old subsidiaries
→ All assets and liabilit es are merged at book value
→ Any dif erence is recognised as capital reserve

Quest on # 35

A0 Ltd and B0 Ltd are amalgamated on and from 1st January 2002. A new company AB0 Ltd was formed to take over the business of exist ng companies

	A LTD	B LTD
Non-current Asset		
Property, Plant and Equipment	8,500	7,500
Financial Asset – Investment	1,050	850
Current Asset		
Inventory	1,250	2,750
Trade Receivable	1,800	4,000
Cash and Cash Equivalent	450	400
	13,050	15,200
Equity and Liabilit es		
Equity share capital of ₹10 each	6,000	7,000
Other equity	3,050	3,000
Non-Current Liabilit es		
Financial Liabilit es – Borrowings	3,000	4,000
Current Liabilit es		
Trade Payables	1,000	1,500
	13,050	15,200

AB0 transfers requisites number of shares to discharge the claims of the equity shareholder of transferor companies
Prepare a note showing calculat on of PC and draf Balance Sheet of AB0 Ltd, assuming B0 is larger ent ty and, and their management will take control of the ent ty

FV of net assets is as under

	A0 LTD	B0 LTD
Fixed asset	9,500	1,000
Inventory	1,300	2,900
FV of business	11,000	14,000

Quest on # 35

Sun Limited and Moon Limited amalgamated from 1st April, 2021. A new company Sun moon Limited with shares of ₹ 10 each was formed to take over the businesses of the exist ng companies

Summarised Balance Sheet as on 31st March, 2021

	SUN LTD	MOON LTD
Non-current Asset		
Property, Plant and Equipment	1,70,00,000	1,50,00,000
Financial Asset – Investment	21,00,000	11,00,000
Current Asset		
Inventory	25,00,000	55,00,000
Trade Receivable	36,00,000	80,00,000
Cash and Cash Equivalent	9,00,000	8,00,000
	2,61,00,000	3,04,00,000
Equity and Liabilit es		
Equity share capital of ₹10 each	1,20,00,000	1,40,00,000
Other equity	61,00,000	54,00,000
Non-Current Liabilit es		
Financial Liabilit es –		
Borrowings (12 % debentures)	60,00,000	80,00,000
Current Liabilit es		
Trade Payables	20,00,000	30,00,000
	2,61,00,000	3,04,00,000

Notes to Accounts:

	SUN LTD	MOON LTD
Other equity		
General reserve	30,00,000	40,00,000
Prof t & Loss	20,00,000	10,00,000
Investment allowance reserve	10,00,000	2,00,000
Export prof t reserve	1,00,000	2,00,000
	61,00,000	54,00,000

Sun moon Limited issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies. Also, the new debentures were issued in exchange of the old series of both the companies.

Compute purchase considerat on and advice discharge thereof by preparing a note and draf the Balance Sheet of Sun moon Limited assuming that Sun Limited and Moon Limited are not under common control and management of larger ent ty out of Sun Limited and Moon Limited will take over the control of the ent ty Sun moon Limited.

The fair value of net assets as at 31st March, 2021 of Sun Limited and Moon Limited are as follows:

	SUN LTD	MOON LTD
PPE	1,90,00,000	1,70,00,000
Inventory	26,00,000	58,00,000
FV of business	2,20,00,000	2,80,00,000

Quest on # 37

Smart Technologies Inc. is a Company incorporated in India in 1998 having business in the f eld of development and installat on of sof wares, trading of computer peripherals and other IT related equipment and provision of cloud comput ng services along with other services incidental thereto. It is one of the leading brands in India.

Af er witnessing immense popularity and support in its niche market, Smart Technologies further grew by bringing its subsidiaries namely:

Company Name	Principle Act vity
Cloudustries India Private Limited	Provision of cloud comput ng services.
MicroFly India Private Limited	Trading of computer peripherals like mouse, keyboard, printer etc.

Smart Technologies started preparing its f nancial statements based on Ind AS from 1st April, 2018 on voluntary basis. The Microf y India Pvt. Ltd. is planning to merge the business of Cloudstries India Pvt. Ltd. with its own for which it presented before the members in the meet ng the below extract of latest audited Balance Sheet of Cloudustries (prepared on the basis of Ind AS) for the year ended 31st March, 2017:

Balance Sheet as at March 31, 2017

	Carrying value
Non-Current Asset	
→ Property, Plant and Equipment	15.00
Current Assets	
→ Financial Assets	
• Trade Receivables	10.00
• Cash held in funct onal currency	10.00
Other Current Asset	8.00
	43.00
EQUITY AND LIABILITIES	
→ Equity Share Capital of ₹ 100 each	
→ Other Equity	45.00
Non-Current Liabilit es	(24.80)
→ Financial Liabilit es	
• Borrowings	2.80
Current Liabilit es	20.00
	43.00

*The Tax Loss carried forward of the company is ₹ 27.20 crores

On September 5, 2017, the merger got approved by the Directors. The purchase considerat on payable by MicroFly to Cloudustries was f xed at ₹18.00 crores payable in cash and that MicroFly take over all the assets and liabilit es of Cloudustries.

Present the statement showing the calculat on of assets / liabilit es taken over as per Ind AS. Also ment on the account ng of dif erence between considerat on and assets / liabilit es taken over.

UNIT – V

DEMERGER AND SALE OF DIVISION

CONCEPT – 22

BASIC OF DEMERGER

1. It means transfer of division from Demerged Company to Resultant Company against which purchase considerat on is received by Shareholders of Demerged Company.
2. Resultant company is a new company and PC is set led in the form of Equity.
3. Generally demerger is to set le family disputes or unlock value of company.

CONCEPT – 23

TYPES OF DEMERGER

Demerger can by of two types

• Demerger under common control

Suppose:

Ram holds > 50% shares of A Ltd. A Ltd demerged its one division to B Ltd and B ltd issued PC to members of A ltd, then we can say Ram would have st ll > 50% rights in B ltd therefore Ram has common in both companies

• Demerger without common control – if above condit on are not sat sf ed

CONCEPT – 24

ACCOUNTING OF DEMERGER

DEMERGER UNDER COMMON CONTROL POOLING INTEREST METHOD	DEMERGER WITHOUT COMMON CONTROL ACQUISITION METHOD
In the books of Demerged Company	**In the books of Demerged Company**
Sundry Liabilit es A/c Dr XXX Result ng Co. A/c Dr XXX To Sundry Asset A/c XXX (being division demerged) • Assets and liabilit es are at BV • Dif erence is transferred to CR	Sundry Liabilit es A/c Dr XXX Result ng Co. A/c Dr XXX To Sundry Asset A/c XXX (being division demerged) • Assets and liabilit es are at BV • Dif erence is Reserve/Surplus
PC received A/c Dr XXX To Result ng Co. A/c XXX (Being PC received)	PC received A/c Dr XXX To Result ng Co. A/c XXX (Being PC received)
Capital Reserve A/c Dr XXX To PC Received A/c XXX (if PC is given to members of demerged to as Dividend as per Ind AS 105)	Reserves/ Surplus A/c Dr XXX To PC Received A/c XXX (if PC is given to members of demerged to as Dividend as per Ind AS 105)
In the books of Resultant Company	**In the books of Resultant Company**
Sundry Assets A/c Dr XXX To Sundry Liabilit es A/c XXX To Vendor A/c PC (dif erence is Capital Reserve) Assets and liabilit es at BV	Sundry Assets A/c Dr XXX To Sundry Liabilit es A/c XXX To Vendor A/c PC (dif erence is Goodwill or Capital Reserve) Assets and liabilit es at BV
Vendor A/c Dr XXX To Share Capital A/c XXX	Vendor A/c Dr XXX To Share Capital A/c XXX

Quest on # 38

Enterprise Ltd has two divisions Laptops and Mobiles.

	Laptop	Mobile	Total
Fixed Assets at cost	250	500	750
Less : Depreciat on	(225)	(400)	(625)
Net Asset (A)	25	100	125
Current Asset	200	500	700
Less : Current Liability	(25)	(400)	(425)
Working Capital (B)	175	100	275
Total (A + B)	200	200	400
Financed by			
Loan funds	-	300	300
Equity Shares of ₹10	25	-	25

Surplus	175	100	75
	200	200	400

Mobile Division was sold for ₹25 crore to Turnaround Ltd a new company, who allot ed 1 crore equity of ₹10 each at a premium of ₹15 per share to the members of Enterprise limited. One of the members of Enterprise Ltd was holding 52% shareholding of the company.

You are asked to

(a) Pass journal entries in the books of Enterprise Ltd

(b) Prepare balance sheet of Enterprise Ltd af er demerger

(c) Prepare balance sheet of Turnaround Ltd

Quest on # 39

Maxi Mini Ltd has two division Maxi and Mini. The draf informat on of Assets and liabilit es as at 31.10.2002 was as under.

	Laptop	Mobile	Total
Fixed Assets at cost	600	300	900
Less : Depreciat on	(500)	(100)	(600)
Net Asset (A)	100	200	300
Current Asset	400	300	700
Less : Current Liability	(100)	(100)	(200)
Working Capital (B)	300	200	500
Total (A + B)	400	400	800
Financed by			
Loan funds	-	100	100
Equity Shares of ₹10	-	-	650
Surplus	400	400	800

It is decided to form a new company Mini Ltd to take over the assets and liabilit es of Mini division

Accordingly, Mini Ltd. was incorporated takeover at Balance Sheet f gures the assets and liabilit es of that division. Mini Ltd is to allot 5 crores equity shares of ₹10 each in the company to the members of Maxi Mini in full set lement of considerat on.

The members of Maxi Mini Ltd are therefore to become members of Mini Ltd as well without having to make any further Investment

a. You are asked to pass journal entries in relat on to the above in the books of Maxi Mini Ltd and Mini Ltd. Also show the balance sheet of the 2 companies as on the morning of 1St November, 2002, showing corresponding previous year's f gures.
b. The directors of the 2 companies ask you to f nd out the net asset value of equity shares pre and post demerger
c. Comment on the impact of demerger on "shareholders wealth"

CONCEPT – 25

BASICS OF SALE OF DIVISION

1. Somet mes any company can transfer its division to a new company against considerat on of equity shares to result ng company (in case of demerger PC is given to members of result ng company)

2. If Sale of division

- Creates subsidiary (Acquirer becomes subsidiary of Acquiree), then it is considered as a common control transact on and its account ng is as per Pooling Interest Method.
- Does not create subsidiary (Acquirer becomes subsidiary of Acquiree), then it is considered as business acquisit on and its account ng is as per Acquisit on Method.

CONCEPT – 26

ACCOUNTING FOR SALE OF DIVISION

UNDER COMMON CONTROL	WITHOUT COMMON CONTROL
POOLING INTEREST METHOD	**ACQUISITION METHOD**
In the books of Selling Company - Acquiree	**In the books of Selling Company - Acquiree**
Sundry Liabilit es A/c Dr XXX Acquirer A/c Dr PC Loss on Demerger A/c Dr XXX To Sundry Asset A/c XXX (being division demerged)) Assets and liabilit es are at BV	Sundry Liabilit es A/c Dr XXX Acquirer A/c Dr PC Loss on Demerger A/c Dr XXX To Sundry Asset A/c XXX (being division demerged)) Assets and liabilit es are at BV
Capital Reserve A/c Dr XXX To Loss on Demerger A/c XXX (being Division transferred)	P/L A/c Dr XXX To Loss on Demerger A/c XXX (being Dividend transferred)
Investment in Shares Dr XXX To Acquirer A/c XXX	Investment in Shares Dr XXX To Acquirer A/c XXX
In the books of Acquirer	**In the books of Acquirer**
Sundry Assets A/c Dr XXX To Sundry Liabilit es A/c XXX To Vendor A/c PC (dif erence is Capital Reserve) Assets and liabilit es at BV	Sundry Assets A/c Dr XXX To Sundry Liabilit es A/c XXX To Vendor A/c PC (dif erence is goodwill or Capital Reserve) Assets and liabilit es at BV
Vendor A/c Dr XXX To Share Capital A/c XXX	Vendor A/c Dr XXX To Share Capital A/c XXX

Quest on # 40

The following is the draf Balance Sheet of Diverse Ltd having an authorised share capital of ₹1,000 crores as on 31.3.2001

Assets	Carrying value
Non-Current Asset → Property, Plant and Equipment Financial Assets → Investments Current Assets → Other Current Assets	 600 1000 3000
	4600
EQUITY AND LIABILITIES → Equity Share Capital of → Other Equity Non-Current Liabilit es Financial Liabilit es - Borrowings - Current Liabilit es	 250 1350 1000 2000
	4600

Capital Commitments: ₹700 crores

The company consists of 2 division

1. Established Division : Gross Block was ₹200 crores and Net Block was ₹30 Crores Current Assets were ₹1,500 and working capital was ₹1,200 crores, the ent re amount being f nanced by shareholders

2. New Project Division : To which remaining f xed asset, current assets and current liabilit es related The following scheme of reconstruct on was agreed upon

(a) Two new companies Sunrise Ltd and Khajana Ltd are to be formed, with authorise capital of ₹1000 crore and ₹500 crore respect vely

(b) Khajana Ltd is to takeover Investments at ₹800 crore and unsecured loan at balance sheet value of ₹600 crore. It is to allot equity shares of ₹10 each to members of Diverse Ltd.

(c) Sunrise Ltd to takeover PPE and net working capital of New Project Division along with the secured loans and capital commitments at book value. It is to allot one crore equity shares of ₹10 each as considerat on to Diverse Ltd. Sunrise limited issued 15% Debentures of ₹500 crore subscribed by Diverse ltd (convert ble into equity shares af er 2 years).

(d) Diverse Ltd made a bonus issue in the rat o of 1:1.

(e) None of the shareholders own more than 50% and are not related to each other.

You are asked to:

(i) Pass journal entries in the books of Diverse Ltd, and

(ii) Prepare the Balance Sheet of three Companies af er the scheme of arrangement.

ILLUSTRATION # 41

Ent ty X acquired 100% shareholding of Ent ty Y on 1 April 20X1 and had complete the preliminary purchase price allocat on and accordingly recorded net assets of INR 100 million against the purchase considerat on of 150 million. Ent ty Y had signif cant carry forward losses on which deferred tax asset was not recorded due to lack of convincing evidence on the acquisit on date. However, on 31 March 2012, Ent ty Y won a signif cant contract which is expected to generate enough taxable income to recoup the losses. Accordingly, the deferred tax asset was recorded on the carry forward losses on 31 March 2012. Whether the aforesaid losses can be adjusted with the Goodwill recorded based on the preliminary purchase price allocat on?

Solut on:

No, as per the requirement of Ind AS 103, changes to the net assets are allowed which results from the discovery of a fact which existed on the acquisit on date. However, change of facts result ng in recognit on and de-recognit on of assets and liabilit es af er the acquisit on date will be accounted in accordance with other Ind AS. In the above scenario deferred tax asset was not eligible for recognit on on the acquisit on date and accordingly the new contract on 31 March 2012 will tantamount to change of est mate and accordingly will not impact the Goodwill amount.

ILLUSTRATION # 42

ABC Ltd. acquires XYZ Ltd. in a business combinat on on 15th January, 20X1. Few days before the date of acquisit on, one of XYZ Ltd.'s customers had claimed that certain amounts were due by XYZ Ltd. under penalty clauses for complet on delays included in the contract. ABC Ltd. evaluates the dispute based on the informat on available at the date of acquisit on and concludes that XYZ Ltd. was responsible for at least some of the delays in complet ng the contract. Based on the evaluat on, ABC Ltd. recognises

₹ 1 crore towards this liability which is its best est mate of the fair value of the liability to the customer based on the informat on available at the date of acquisit on. In October, 20X1 (within the measurement period), the customer presents addit onal informat on as per which ABC Ltd. concludes the fair value of liability on the date of acquisit on to be ₹ 2 crore. ABC Ltd. cont nues to receive and evaluate informat on related to the claim af er October, 20X1. Its evaluat on doesn't change t ll February, 20X2 (i.e. af er the measurement period), when it concludes that the fair value of the liability for the claim at the date of acquisit on is ₹ 1.9 crore. ABC Ltd. determines that the amount that would be recognised with respect to the claim under Ind AS 37, Provisions, Cont ngent Liabilit es and Cont ngent Assets as at February, 20X2 is ₹ 2.2 crore.

How should the adjustment to the provisional amounts be made in the f nancial statements during and af er the measurement period?

Solut on:

The consolidated f nancial statements of ABC Ltd. for the year ended 31st March, 20X1 should include ₹ 1 crore towards the cont ngent liability in relat on to the customer claim. When the customer presents addit onal informat on in support of its claim, the incremental liability of ₹ 1 crore (₹ 2 crore – ₹ 1 crore) will be adjusted as a part of acquisit on account ng as it is within the measurement period. In its f nancial statements for the year ending on 31st March, 20X2, ABC Ltd. will disclose the amounts and explanat ons of the adjustments to the provisional values recognized during the current report ng period. Therefore, it will disclose that the comparat ve informat on for the year ending on 31st March, 20X1 is adjusted retrospect vely to increase the fair value of the item of liability at the acquisit on date by ₹ 1 crore, result ng in a

corresponding increase in goodwill. The informat on result ng in the decrease in the est mated fair value of the liability for the claim in February, 20X2 was obtained af er the measurement period. Accordingly, the decrease is not recognised as an adjustment to the acquisit on account ng. If the amount determined in accordance with Ind AS 37 subsequently exceeds the previous est mate of the fair value of the liability, then ABC Ltd. recognises an increase in the liability. As the change has occurred af er the end of the measurement period, the increase in the liability amount ng to ₹20 lakh (₹ 2.2 crore– ₹ 2 crore) is recognised in prof t or loss.

UNIT – VI

FIRST TIME ADOPTION

CONCEPT – 27

APPLICATION

Ind AS 103 need not be applied to business combinat ons before date of transit on. But, if one business combinat on is restated to comply with Ind AS 103, all subsequent business combinat ons are restated of the group including those by subsidiary for the purpose of Consolidated Financial Statements.

However, In case where the parent adopts Ind AS later than the subsidiary then it does not change the amounts already recognised by the subsidiary.

CONCEPT – 28

RECOGNITION & MEASUREMENT

1 RECOGNITION AND MEASUREMENT

SITUATION – 1 - RESTATEMENT OPTION NOT AVAILED – EXEMPTION IS USED.

In accordance with Ind AS 101, an ent ty has an opt on to treat the previous GAAP carrying values, as at the date of transit on

Example:

Any adjustments in relat on to recognit on of cont ngent considerat on on f rst t me adopt on shall be made in the statement of prof t and loss.

When the exempt on is used:

There won't be any change in classif cat on from previous GAAP (AS – 14)

1. For example, if the "pooling of interests" method is applied as per AS 14, the balances of assets and liabilit es arising therefrom shall be carried forward
2. Another example is regarding the ident f cat on of the acquirer – irrespect ve of the fact that a business combinat on could have been a reverse acquisit on as per Ind AS 103, the account ng adopted in previous GAAP shall be cont nued

SITUATION – 2 - RESTATEMENT OPTION AVAILED – EXEMPTION IS NOT USED.

Recognit on and Measurement Principles:

CASE - 1	
If asset acquired or liability assumed, were recognised as per previous GAAP and if recognised as per Ind AS would have been same, then cont nue doing so	
Example: Investment in Subsidiary, Associate or JV	
CASE – 1	
If an asset acquired or liability assumed (other than Intangible Asset)	
was not recognized in previous GAAP	was recognized in previous GAAP
But would have been recognised in Ind AS at original cost	but would have been recognised in Ind AS at other than original cost
Example: Employee Cost as per Ind AS 109;	Example: Investment in Equity Instruments
It shall not have a deemed cost of zero	It shall not have a deemed cost of zero
shall be measured at the amount at which Ind AS would require it to be measured.	shall be measured at the amount at which Ind AS would require it to be measured
The result ng change is recognised in retained earnings Means: Value as per Ind AS - Zero is transferred to Retained Earning	The result ng change is recognised in retained earnings Means: Value as per Ind AS – Value recognised as per previous GAAP is transferred to Retained Earning

Therefore, it should be evident that the balance of goodwill or capital reserve as per previous GAAP is not adjusted for any reason.

Except on - goodwill or capital reserve as per previous GAAP is adjusted only in case of Intangible Asset as stated in next point.

CASE – 3	
Intangible Asset Assumed	
as a part of goodwill (Ex : Reacquired Right)	Separately (Ex : Discount on Issue of Debenture)
Ind AS requires it to be recognized separately, then it should be recognized as per provision of Ind AS	an asset that was recognised as an intangible asset under previous GAAP, but is not permit ed to be recognised as an asset under Ind AS
Amount Included in goodwill is derecognised and Intangible Asset as per Ind AS is recognised, result ng in decrease of goodwill be equivalent amount	Derecognise the asset and increase the value of goodwill with equivalent amount
Example PC is 4,00,000	Example PC is 4,00,000

NATO is 3,00,000 Therefore Goodwill is 1,00,000 Which is includes Reacquired rights to the tune of 20,000 and this reacquired right should be reduced from goodwill and should be recognised separately	NATO is 3,00,000 (including DOID of 10,000) Therefore Goodwill is 1,00,000 Derecognise DOID of 10,000 thus making NATO of 2,90,000 and PC remaining constant goodwill will become 1,10,000

Point to be noted:
Regardless of whether there is any indicat on that the goodwill may be impaired, the goodwill has to be tested for impairment at the date of transit on to Ind AS and any result ng impairment loss is to be recognised in retained earnings (or, if so required by Ind AS 36, in revaluat on surplus).
The impairment test is based on condit ons at the date of transit on to Ind AS.

Example:
1. If the acquirer had not, in accordance with its previous GAAP, capitalised leases acquired in a past business combinat on in which acquiree was a lessee, it shall capitalise those leases in its consolidated f nancial statements, as per Ind AS 116, in its Ind AS Balance Sheet.
2. If the acquirer had not, in accordance with its previous GAAP, recognised a cont ngent liability that st ll exists at the date of transit on to Ind AS, the acquirer shall recognise that cont ngent liability at that date unless Ind AS 37 would prohibit its recognit on in the f nancial statements of the acquiree.

ILLUSTRATION # 43

A Ltd. acquired B Ltd. in a business combinat on transact on. A Ltd. agreed to pay certain cont ngent considerat on (liability classif ed) to B Ltd. As part of its investment in its separate f nancial statements, A Ltd. did not recognise the said cont ngent considerat on (since it was not considered probable) A Ltd. considered the previous GAAP carrying amounts of investment as its deemed cost on f rst- t me adopt on. In that case, does the carrying amount of investment required to be adjusted for this transact on?

Solut on:
In accordance with Ind AS 101, an ent ty has an opt on to treat the previous GAAP carrying values, as at the date of transit on, of investments in subsidiaries, associates and joint ventures as its deemed cost on transit on to Ind AS. If such an exempt on is adopted, then the carrying values of such investments are not adjusted. Accordingly, any adjustments in relat on to recognit on of cont ngent considerat on on f rst t me adopt on shall be made in the statement of prof t and loss.

ILLUSTRATION # 44

A Ltd. has a subsidiary B Ltd. On f rst t me adopt on of Ind AS by B Ltd., it availed the opt onal exempt on of not restat ng its past business combinat ons. However, A Ltd. in its consolidated f nancial statements has decided to restate all its past business combinat ons. Whether the amounts recorded by subsidiary need to be adjusted while preparing the consolidated f nancial statements of A Ltd. considering that A Ltd. does not avail the business combinat on exempt on? Will the answer be dif erent if the A Ltd. adopts Ind AS af er the B Ltd?

Solut on:
As per Ind AS 101: "A f rst-t me adopter may elect not to apply Ind AS 103 retrospect vely to past business combinat ons (business combinat ons that occurred before the date of transit on to Ind AS). However, if a f rst-t me adopter restates any business combinat on to comply with Ind AS 103, it shall restate all later business combinat ons and shall also apply Ind AS 110 from that same date.

For example, if a f rst-t me adopter elects to restate a business combinat on that occurred on 30 June 20X0, it shall restate all business combinat ons that occurred between 30 June 20X0 and the date of transit on to Ind AS, and it shall also apply Ind AS 110 from 30 June 20X0." Based on the above, if A Ltd. restates past business combinat ons, it would have to be applied to all business combinat ons of the group including those by subsidiary B Ltd. for the purpose of Consolidated Financial Statements. Ind AS 101 states, "However, if an ent ty becomes a f rst-t me adopter later than its subsidiary (or associate or joint venture) the ent ty shall, in its consolidated f nancial statements, measure the assets and liabilit es of the subsidiary (or associate or joint venture) at the same carrying amounts as in the f nancial statements of the subsidiary (or associate or joint venture), af er adjust ng for consolidat on and equity account ng adjustments and for the ef ects of the business combinat on in which the ent ty acquired the subsidiary." Thus, in case where the parent adopts Ind AS later than the subsidiary then it does not change the amounts already recognised by the subsidiary.

ILLUSTRATION # 45

A Ltd. acquired B Ltd. in a business combinat on transact on. A Ltd. agreed to pay certain cont ngent considerat on (liability classif ed) to B Ltd. As part of its investment in its separate f nancial statements, A Ltd. did not recognise the said cont ngent considerat on (since it was not considered probable). A Ltd. considered the previous GAAP carrying amounts of investment as its deemed cost on f rst- t me adopt on. In that case, does the carrying amount of investment required to be adjusted for this transact on?

Solut on:

In accordance with Ind AS 101, an ent ty has an opt on to treat the previous GAAP carrying values, as at the date of transit on, of investments in subsidiaries, associates and joint ventures as its deemed cost on transit on to Ind AS. If such an exempt on is adopted, then the carrying values of such investments are not adjusted. Accordingly, any adjustments in relat on to recognit on of cont ngent considerat on on f rst t me adopt on shall be made in the statement of prof t and loss.