श्री गणेशाय नमः
श्री सरस्वत्यै नमः
शुभ लाभ

IND AS 103
Business Combination

NATO 500
P.C. 500
(50sh x 10) 0
giw.

P.C. 600.
(50sh x 12)
↳ 2 → s.p.
gw. ⇒ 250
P.C. 750
(50sh x 15)
↳ 5 = s.p.

A acq. B

A B
Rev. acq.
↓
Same

A B
100 200
200 ✓
300

Biz. acq.
AS 14

A → B.

~~BP Dr~~
~~To Liq.~~
N.A. Dr
G/W Dr
~~To B.P.~~
~~Liq. Dr~~
To MOP.

N.A Dr
G/W Dr
To MOP

AS-21
↳ Control
↓
y.r. end
A → B

~~Inv Dr~~
To MOP.
N.A Dr
G/W Dr
~~To Inv~~

HO Ltd.
↳ Res.
↳ Hostel.

A → B
AS-14 Asset.

#1 What is Business ??

It means:

a) integrated set of activities & assets

b) Capable of being conducted & managed.

c) for the purpose of.

↳ producing g/s.

↳ investment income

↳ other income from ordinary activities.

note-1 :- Set of Activities (SOA)

Input + Process = output

Input	Process	Output
There are economic resources which have the ability to create output from one or more processes.	There are ↳ Systems/methods. ↳ Standards. ↳ Conventions ↳ protocols. There are basically S.O.A. applied on inputs.	It is the result obtained after appl^n of process on inputs.

work force

Organised Skilled but does not include Sales Staff etc.

Assets.

a) PPE
b) Intangibles (excl. g/w)
c) Other assets. (excl. liability)

→ retn on invt.
→ Redn in cost
→ other economic benefit

** Output is not mandatory for S.O.A. as biz. capable to generate outputs.

eg → Startups.

note-2 :- Acquisition of group of Assets

a) It is covered by AS 14 i.e. Amalgamation
b) It is not covered by IND AS 103 i.e. Biz. Combination
∵ it does not constitute business.
c) it is covered under Ind As 16 i.e. PPE.

As per IND AS 16

Consideration i.e. Consolidated price paid to acquire assets would be apportioned in ratio of f.v. of assets acquired.

eg:→

	B.V.	F.V.
PIM	100	150
Building	200	250

purchased for ₹ 600.

As-14

PIM Dr 150
Building Dr 250
GW Dr 200 (B/f)
To MOP 600

Ind As 16

PIM Dr 225
Building Dr 375
To MOP 600
↓
{Ratio of 150:250}

note-3 :-

Purchasing of property with long term tenancy rights.
↓
Shall not be covered by Ind As 103, it is not even a business
↓

Purchase of malls / hotels
↓
Considered as Business under Ind As 103

It would be covered by IND AS 40 i.e. Investment property.

note-4 :- Acquisition of shell company

B/s of Dr Ltd.

₹ in cr.

ESC	100	L&B	100

HD Ltd purchased 100% of E.Sh. of Dr Ltd.

It is not a Business under IND AS 103

note-5 Acquisition of goodwill
It is considered as Business but Vice versa is not covered.

#2 what is Business combination ?

when an entity obtains control over another Biz.

Acquirer

gets by having > 50% of E.sh. of acquiree

As per IND AS 110

V.R. > 50% & Power to compose BOD

acquiree

already discussed in #1

entity which pays P.C. → legal acquirer

entity which has Control → acing acq. rer

How.

Pays P.C. → Buy ≥ 50% of E.sh of acq. → NATO xx, PC xx, Diff xx

does not Pay P.C. → through B.B. eg:- Buddy Ltd. 100 sh.

HO 45 → Parent

B.B. 20 → after BB = 80 sh.

g/w

Gain on B.P.

C.R.

includes potencial equity shares → Options

MP > EP → should be considered

MP < EP → ×

LA = A.A. → Acquisition

LA ≠ A.A. → Reverse acquisition

note-6 :- P.C.

HO Ltd → ₹1000 Cr. → Buddy Ltd.

Assets

NATO $\Rightarrow$ 800 Cr. { Eq & Liabilities.

P.C. = 1000 Cr

NATO = 800 Cr

$\therefore$ Diff $\Rightarrow$ 200 Cr $\rightarrow$ G/W.

if PC = 1000 Cr & NATO $\Rightarrow$ 1200 Cr.

$\therefore$ Diff = 200 Cr

C.R. $\rightarrow$ O.E.

or

gain on Bargain Purch. (OCI) $\rightarrow$ O.E.

Only in case of Distress Sale.

#3 Types of Biz. Combination

Control over all or entire Biz.

- LA = AA. → Acquisition method.
- LA ≠ AA → Reverse acquisition method.

Control over 1 unit of Business.

Buddy Ltd.
D1
D2
D3
D4

HD Ltd. $\xrightarrow{\text{Acq.}}$ D4

Sold. Biz. sep.

→ Spin off → P.C. paid by HD Ltd. goes to whom

- P.C. stays with entity i.e. Buddy Ltd. → Sale of Division → Invt in S.
- distributed to S.H. of Buddy Ltd. → Demerger → Dividend

as per IND AS 105

#4 Investment in equity shares

- ≤ 20% → Ind As 109 F.I
- > 20% upto 50% → Associate Ind As 28
- > 50% → Invt in S.
  - Date when we purchase | acquire equity shares > 50% → Initial recognition on date of control → IND AS 103.
  - Year end → Subsequent recognition → Ind As 110 → Consolidation

P.C., NATO, G/W, CR.

with subsi-
-diary.

HD MENTORING
HARSHIT DWIVEDI

#5 How to identify B/C.

Ind AS 103 prescribes steps to be followed to identify that whether SoA & assets acquired by an acquirer is a B/C or not.

Step 1 :- Apply Concentration Test. (C.T.)
↳ optional

Step 2 :- Apply Business assessment Test (BAT)
↳ mandatory

eg 2 → NA of S = 50000.
P's share = 80%
∴ NCI = 20%.

Total E. Sh. of Subsidiary = 10000
P acquires 50% stake = 3000
30% stake. = 2500

FV of NCI as on D.O.A. = 12000

(no. of E.sh of s held by minority sh
x
FV of E.sh as on DoA)

10000 sh

P. (80%)
8000

NCI (20%)
2000

AS-21

P's share in N.A. of s = 40000
(50000 x 80%)
− Invt in S 55000

g/w 15000

Ind AS
103

Partial

N.A. of s. 50000
− P's sh. in N.A. (80%) (55000)

Full

N.A. of s 50000
− P's sh. (55000)
− NCI (12000)

— NCI (20%) (11000)

@ PSNA (50000 × 20%)

If Q.R.S. given 15000

@ FV

given 17000

based on FMV of Esh of S.

NCI @ FV

no. of Esh of S. held by NCI × FV of Esh of S as on DoA

₹ 12000.

if not given use

based on prop. sh. to Parent.

NCI @ FV

ICAI

∵ P (80%) = 55000

∴ NCI (20%) = ?

$\frac{55000}{80\%} \times 20\%$

⇒ 13750

only for understanding.

50000

P	NCI
80%	20%
40000	10000 @ FV ⇒ 12000
55000	2000
15000	

17000 Full gw.

eg-3

B/S. of HD Ltd.

ESC	45000	L&B	87000
RSS	30000	P/M	2000
Deb	20000	Stock	1000
Crs.	5000	Cash	10000
	100000		100000

Buddy Ltd a/o HD Ltd for ₹ 80000

Soln:- A.S. wanted us to do a/cing IND AS.

as mentioned below.

LSB	87000
P&M	2000
stock	1000
cash.	10000
	100000
− Cr	(5000)
− Deb	(20000)
NATO	75000
P.C.	80000
G/W	5000

↳ logical way of thinking is to see transaction under below mentioned way.

HD MENTORING
HARSHIT DWIVEDI

Buddy Ltd.

paid to day	80000	(P.C.)
+ future paym. (Deb + Cr.)	25000	(liabity payoff)
	105000	
− Cash.	(10000)	(Realise)
		xxx
Buddy Ltd paid in Net.	95000	
to HO assets. {LSB + PIM + stock}.	90000	assets.
G/W.	5000	

∴ out of total payments of 95000, LSB represents 87000

$$\therefore \frac{87000}{95000} \times 100 = 92\%$$

Can we conclude that max. P.C. is for LSB hence it is not a Biz. acq. / B.C. & not covered by Ind AS 103.

II Concentration TEST (Statement)

Step 1: Cal^n of F.V. of Consideration.

→ FV of previously acquired Int. (stake) xxx

(before DoA or obtaining control)

→ Consideration transf. to acquire S.O.A. on date of control — xxx

→ NCI — xxx

xxx

Step 2 Calⁿ of f.v. of assets acquired

F.V. of Consideration (step 1)	xxx
+ f.v. of liability (excluding DTL)	xxx
− CSCE	(xx)
	xxx

Step 3 identify Single Identifiable assets to Similar group of Identifiable assets.
↳ (significant)

$$C.T. \Rightarrow \frac{\text{FV. of } \text{Single An.}}{\text{FV of assets. (step 2)}} \times 100$$

⇒ .... %

if ≥ 90% then. C.T. is Qualified.

if < 90% then C.T. is not Qualified.

Which means transaction is not a BIC.

but it is asset acquisition

S.

Transaction is not asset acq.

S we will check BAT.

Supp :-

LSB.	50000
PSM	39000
stock	1000

$\rightarrow \frac{89000}{95000} \times 100$

$\Rightarrow$ 93.6%

→ C.T. ✓

→ means not a BIC.

89.9%

→ C.T. Dis.

→ BIC ✓ → BAT

→ mandate

Question # 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 Concentration test

Sol^n

Step 1 :- FV of consideration

P.C. transf. to acquire S.O.A. & Assets. 20000

step 2 F.V. of assets acq.

F.V. of Cons.	20000
+ Liabilities except. DTL	2000
− C & Bank	(100)
	21900

Step 3. C.T.

a) L & B 18000

b) FV. of Asset Acq. 21900

$$C.T. = \frac{18000}{21900} \times 100\%$$

$$= 82\%$$

∴ CT is not satisfied

and hence it is not a asset acquisition.

H.W:

Question # 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 substantial PPE of ₹ 3,800.
A ltd want to know whether it is Asset Acquisition as per Concentration Test in 103.

Soln :-

Step 1 FV of Consideration

FV of previously acq. stake (30%)	1500
FV of Consideration as on DOA (50%)	2000
NCI @ FV	1200
	4700

Step 2 FV of Asset acquired

FV of cons. (step 1)	4700
+ Liability	—
− CSCE	(500)
	4200

Step 3 C.T

a) PPE 3800

b) FV of AA (step 2) 4200

$$CT = \frac{a}{b} \times 100$$

$$= \frac{3800}{4200} \times 100$$

$\Rightarrow$ 90.48 %

hence it is Asset Acquisition

H.W.

Question # 3 EXAMPLE 1 OF SM

Entity A holds 20% interest in Entity B. Subsequently Entity A, further requires 50% share in Entity B by paying ₹ 300 crores.

The fair value of assets and liabilities assumed are as follows

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

FV of Entity B is ₹ 400 crores and FV of Entity A's previously held interest is ₹ 80 crores. Apply Concentration test

Business Assessment Test (BAT)

First check

SOA acquired should be atleast 1 Input + process.

↓

should create output

or

has ability to create output.

Second check.

SOA acquired does not produce output.

↓

But process acquired is Critical & has still ability to create output.

S.O.A. acquired produce output as on D.O.A.

↓

Then process acquired

↓

Should be Critical to continue producing output

+

→ inputs acquired
is → organized.
↳ special &
↳ skilled workforce

with.
Resoures need by
such workforce.

which has
ability to create output.

inputs acquired
is → organized.
↳ special &
↳ skilled workforce

alongwith.
Resoures which
has ability to
continue producing
output.

Or

process acquired is
↳ unique
↳ rare
↳ cannot be replaced
easily as it is.
↳ Cannot be created
unless substancial
time & cost is
incurred.

HO Summary.

Is it a B/C.

S1 → C.T.

- Q. → Stop. It is asset acq.
- N.Q. → Apply BAT

S2 → B.A.T.

- Q. → ↳ Ist ch. t ↳ IInd che. → B/C.
- N.Q. → it is asset acquisition

Question # 4	ILL 1 OF SM

An entity 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 estimated to be Rs.500 crore and Rs.1000 crore respectively.
Show how the transaction be accounted.

Sol^n:-

₹ in cr.

Patent Dr	467		$\left(1400\text{ Cr} \times \frac{500}{1500}\right)$
Equipment Dr	933		$\left(1400 \times \frac{1000}{1500}\right)$
To land		400	
To Cash		1000	

#6 IND AS 103 & IND AS 110

a) >50% & <100%
- Initial recognition → Ind As 103 → SFS ↓
- Subsequent recognition → Ind As 110 → CFS ↓

b) 100% → wholly owned Subsidiary
- exists. → Same treatment as in Case a)
- does not exist.

Invt in S: Dr xxx
To MoP xxx

NA of S Dr
G/W (B/f) Dr
To inv in S
To NCI
To G/O BP (B/f)

means it is a B/C in the nature of absorption which IND AS calls it as acquisition.

NA of S Dr
G/W Dr
To MoP
To CR.

here ∵ subsidiary does not exist so there will NO of all A & L & derecognition of investments made.

#7 NCI

if Parent has 70% shares of subsidiary then we can say parent has 70% stake or 70% control over subsidiary.
∴ 30% of shares of subsidiary which has no control is NCI.

Arcing :-

eg-4 :-

HD Ltd.

ESC	100	NCA	200
RSS	50	CA	100
CL	150		

Buddy Ltd.

ESC	80	NCA	200
RSS	30		
CL	90		

HD Ltd purchased 80% E.Sh. of Buddy Ltd. for ₹ 100. On D.O.A. Do arcing as per relevant Ind As.

Solⁿ :-

N.A. of Buddy	= 200 − 90 =	110
− Share of NCI	(110 × 20%)	(22)
	NATO	88

PC	100
NATO	88
gw	12

B/S of HD Ltd on DoA.

(SFS)

ESC	100	NCA	200
R&S	50	invt in Buddy	100
CL	150		
	300		300

J.E →

Inv in Buddy Dr 100
To Bank (C.A.) 100

Consolidated B/S of HD Ltd.

ESC	100	NCA (200+200)	400
R&S	50	ITA (gw)	12
NCI	22		
CL (150+90)	240		
	412		412

eg-5

HD Ltd

ESC	100	NCA	200

Buddy Ltd.

ESC	80	NCA	178

RSS	50	CA	100	RSS	8
C.L.	150			C.L.	90

HD Ltd purchased 100% of E.sh. of Buddy Ltd for ₹ 100 cash. Do treatment of above as per relevant Ind As.

Sol^n :-

Subsidiary exist

N.A. of S. (178 - 90) = 88
P.C. = 100

g/w 12

Subsidiary do not exist

N.A. of S . 88
P.C. 100

g/w. 12

D.O.A.

Invt in Buddy 100
To cash 100

N.A. of S Dr 88
g/w Dr 12
To Cash 100

year end.

N.A. of S Dr 88
g/w Dr 12
To Invt in S. 100

CBS of HD

ESC	100
RSS	50
C.L. (HFS)	240
	390
NCA (HFS)	378
g/w	12
	390

#8 Non applicability of IND AS. 103

It does not cover

i) Joint arrangement. (IND AS 111)
ii) acquisition of group of assets. (IND AS 16)

#9 methods of a/cing

- Without common control → Acquisition method
- With common control → Pooling of int. method.

i) A/L are taken over at F.V.

ii) RSS are not taken over

iii) Diff. b/w P.C. & NATO

$\downarrow$

G/w / C.R.

i) A/L are t/o at B.V.

ii) RSS are t/o

iii) NATO − P.C. = C.R.

$\downarrow$

will discuss later on.

#10 Things to study

i) Acquisition method. #11

ii) Reverse acquisition #12

iii) Common Control #13

iv) Sale of Division #14

v) Demerger #15

vi) Ind AS 101 #16

#11 Acquisition Method

There are 7 steps to be followed

Step 1 Identify the acquirer

Step 2 Identify D.O.A.

Step 3 Calculate Net Assets acquired

Step 4 Calculate Purch. consideration
Step 5 Calculate g/w | g. on B/P.
Step 6 A/cing in the books of acquirer
Step 7 B/s as on D.O.A.

Step 1 :- Identify the acquirer

L.A. → entity which pays P.C.

A.A. → entity which has control over combined entity.

if L.A. = A.A. ⇒ Acquisition method.
if L.A ≠ A.A. ⇒ Reverse acq. method.

Question # 5

Situation – 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.

Situation – 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 Ratio 3:2 for A ltd and 1:2 for B ltd.

FV of shares of C ltd is ₹ 11 per share.

Situation – 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 Ratio 3:2 for A ltd and 1:2 for B ltd. FV of shares of C ltd is ₹ 11 per share.

Soln :-

Situation 1

no. of eq. sh. held by A Ltd = 10000

no. of eq. sh. held by B Ltd in A Ltd. = 28000

(7000 × 4)

38000

$\therefore$ A's stake $= \frac{10000}{38000} \times 100 = 26\%$ = L.A.

& B's stake $= \frac{28000}{38000} \times 100 = 74\%$ = A.A.

$\therefore$ Reverse acq. method will apply.

Situation 2

no. of equity sh. held by A Ltd in C Ltd. = 15000

$\left(10000 \times \frac{3}{2}\right)$

no. of equity sh. held by B Ltd in C Ltd. = 7500
($15000 \times \frac{1}{2}$)

22500

$\therefore$ A's stake = $\frac{15000}{22500} \times 100 = 66.67\%$

$\therefore$ B's stake = $\frac{7500}{22500} \times 100 = 33.33\%$

$\therefore$ L.A. = C Ltd.

A.A. = A Ltd.

$\therefore$ Rev. acq. method will apply.

Situation 3

no. of equity sh. held by A Ltd in C Ltd. = 15000
($10000 \times \frac{3}{2}$)

no. of equity sh. held by B Ltd in C Ltd. = 7500
($15000 \times \frac{1}{2}$)

no. of equity sh. of C Ltd. = 30000

52500

A stake = $\frac{15000}{52500} \times 100 = 28.14\%$

B Stake $= \frac{7500}{52500} \times 100 = 14\%$

C Stake $= \frac{30000}{52500} \times 100 = 57.14\%$

$\therefore$ L.A = A.A. = C Ltd

$\therefore$ Acq. method will apply.

Step 2 Identify D.O.A.

→ Date on which > 50% control of equity shares obtained

→ Date on which acquirer legally transfers P.C & acquires the assets & assumes liabilities of acquiree.

→ Date on which Control is established.

- > 50% of E.sh.
- Power over investment

eg-6

HD Ltd purch. 60% E.Sh. of Buddy Ltd. on 1-7-2025.

normal acq.

HD Ltd purchased 25% of E.sh of Buddy Ltd on 1-5-2025. Further 25% of E.sh. acquired by HD Ltd. on 1-8-2025. further 15% of E.sh. of Buddy Ltd purch. on 1-10-2025.

Step acquisition

Refer text book case studies of Page 78 & 79

Step 3 :- Calⁿ of Net assets acquired

Particulars	amount.
F.V. of all identifiable assets acquired as on DOA	xxx
+ D.T.A. (Note-1)	xxx
+ Reacquired rights. (Note-2)	xxx
+ Indemnification of Assets. (note-3)	xxx

- D.T.L. (Note-1) (xx)
- liabilities at f.v. on D.O.A. (xx)
- f.v. of Contingent liabilities as on D.O.A. (xx)
- f.v. of post Retirement Emp. benefits (xx)

N.A. of acquiree as on D.O.A

Note-1 DTA & DTL.

F.V. → C.A. ; → as per a/c

Tax base. → as per I.T. Act.

As per IND AS 12 "Income taxes" tax base is nothing but book value & fair value is carrying value.

Building.

tax base. 80 Cr (b.v.)

F.V. 150 Cr. (C.A.)

→ 70 Cr.

useful life = 10

Dep.. 8 → 15.

↓ ↑ ↑ ↓

more tax ; less tax

Carrying amount = value of shares & liability as per books of acc.

Tax base = value of A & L as per tax Laws.

In Biz. Combination

FV / C.A. = F.V. of A/L as per acquirer

T.B = C.A. of A/L as per acquiree (Previous owner)

Situation → Asset

- C.A. < Tax base → Diff = amt × T. Rate → DTA.
- C.A. > T.B. → Diff = amt × T. Rate → D.T.L.

Situation → Liability

C.A. < Tax base → Diff = amt × T. Rate → DTL

C.A. > T.B. → Diff = amt × T. Rate → DTA.

eg.- **QUESTION 07**

	Fair (Rs in `000)	
	F[redacted] VALUE	CARRYING AMMOUNT
Plant & Machinery	120	90
Furniture	120	100
Debtors	140	150
Creditors	100	150
Debentures	70	50

PURCHASE CONSIDERATION = 300

TAX RATE = 30%

Calculate Goodwill or gain on Bargain purchase.

Sol^n :- Cal^n of D.T. (₹ in'000)

	C.A/FV	T.B.	Diff.	
P&M	120	90	30	DTL
Furniture.	120	100	20	DTL
Debtors	140	150	(10)	DTA

40 DTL

Creditors	100	150	(50)	DTL
Deb.	70	50	20	DTA.
			30	DTL

Def. Tax = 70 × 30%

= 21

Calⁿ of NATO

PIM	120
Furn.	120
Deb.	140
− Cr.	(100)
− Deb	(70)
− DTL	(21)
N.A.	189
P.C.	300
g/w	111

Solve Q.1 & Q.12 of volume-3

H.W.

Note-2 Reacquired Rights

agreement

HO Ltd. Franchisor ← Franchisee. Buddy Ltd.

fees

↓

it will be appearing in B/S of franchisee as franchisee Rights.

acquire

↓

assets − liabilities + Reacquired rights

↓

these rights which were earlier given by franchisor to franchisee is known as reacquired by franchisor & such

Franchisee rights is known as reacquired rights.

i) These rights should be recognised in net assets acquired at fair value.

ii) Franchisor also a/c for loss on reacquired rights.

a) amount payable — C.A.

or

b) Settlement amount

QUESTION 09

1) Franchise Fees = Rs 10 LAKHS for 10 years.

2)Settlement amount in case of termination by either of paty at 50% above carrying amount.

3)Franchiser reacquired franchise after 4 years.

4)~~Face~~ air Value of franchise rights of remaining 6 years = 16 LAKHS.

Soln :- Recognition

↳ Reacquired Right = 1600000

↳ loss

a) amount payable or b) settlement

– C.A.   amount

whichever is less

i) $C.A = 10L - \frac{4}{10} \times 10L$

$= 6L.$

ii) $S.A. = 6L + 50\% = 9L.$

loss = i) amt payable – C.A
= 16 – 6
= 10 L.   Or
ii) setti. amount = 9L.

i.e. 9L.

if P.C. in above situation = 100 lacs &
N.A. = 70 lac.

then   P.C. = 100 – 9L. = 91L.
(loss on
reacq. Ri.)

g/w = PC – N.A = 91 – 70

= 21

CASE STUDY – 11 (ILL 20 OF SM)

ABC Ltd. acquires PQR Ltd. for a consideration of $\boxed{\text{₹1 crore.}}$ 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 initial fee plus 20%. At the date of acquisition, the settlement amount is ₹1,80,000 [(₹2,50,000 x 6/10) + 20%].

ABC Ltd. has acquired PQR Ltd., because it sees high potential in the European market and wishes to exploit it. ABC Ltd. calculates that under current economic conditions 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 combination? 103.

Solⁿ :- Recognition

Reacquired Right
@ FV
₹ 450000

a) C.A. = $\frac{250000}{10} \times 6$

⇒ 150000

b) S.A = 180000

c) amt. p. = 450000

loss | a) 450000 − 150000

= 300000

or

b) 180000

∴ loss = 180000

P/C = 100 Lakhs − 1.8 L

= 98.2 Lac as per Ind AS 103.

Note-3 Indemnification of Asset.

HD MENTORING
HARSHIT DWIVEDI

Meaning

amount promised by acquiree co. to acquirer co. against Contingent liability transferred is known as indemnification of asset.

Measurement

a) f.v. of C.L.

Or

b) amount promised

Recognition

Only when it is Collectable

Initially
↳ as asset in B/S.
↳ J/E

N.A. of S Dr
I.A. Dr
To C.L.
To MOP

(diff = g/w / gon BP)

Subsequently any Δ in value of indemnification of asset should be a/cted using P/L.

eg:- HD Ltd. $\xrightarrow{HD}$ Buddy Ltd.

Buddy Ltd. $\xrightarrow{A\&L}$ HD Ltd.

Buddy Ltd. → Cont. Liab. ⇒ 1 Cr.

Buddy Ltd promised to pay guranteed amount i.e. 60% of its Cont. Liab.

∴ Indemen. of Asset = 1 Cr × 60%
= 60 L.

& for eg ⇒ FV of Cont. L.
= 55 L.

∴ I.A. a) FV = 55 L
b) amt per. = 60 L

∴ 55 L.

Contingent Liability :- Acc. to IND AS 37
Obligation is certain but amount is uncertain i.e. amount cannot be calculated with degree of estimation.

Or

Obligation is uncertain & degree or possibility of certainity is < 50%

CASE STUDY – 12 (ILL 15 OF SM)

ABC Ltd. acquired a beverage company PQR Ltd. from XYZ Ltd. At the time of the acquisition, PQR Ltd. is the defendant in a court case whereby certain customers of PQR Ltd. have alleged that its products contain pesticides 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 indemnified ABC Ltd. for the losses, if any, due to the case for amount up to ₹ 1 crore. The fair value of the contingent liability for the court case is ₹ 70 lakh.

How should ABC Ltd. account for the contingent liability and the indemnification asset? What if the fair value of the liability is ₹ 1.2 crore instead of ₹ 70 lakh.

Soln :- i) FV of C.L. = 70 lakh.

actual amount pr. = 1 Cr.
actual C.L. = 2 Cr

∴ I.A.

i) FV of C.L = 70 L
ii) amount prom = 1 Cr
∴ I.A. = 70 Lakh

ii) FV = 1.2 Cr.
Amt = 1 Cr
∴ I.A. = 1 Cr

Question # 6

If FV of contingent 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.

Soln :-

i) FV = ₹30
ii) amt promised = 30 × 80% = 24
∴ I.A. = 24

J.E. :- Initial Recognition

N.A. of S	Dr	xx	
I.A.	Dr	24	
To MoP			xxx
To C.L.			30

Subsequent Recognition

a) FV Δ = ₹ 50

P/L Dr 20
    To C.L. 20

&

I.A. Dr 16 (20×80%)
    To P/L 16

b) FV Δ ₹ 20

C.L. Dr 10
    To PL 10

&

P/L Dr 8 (10×80%)
    To I.A. 8

Measurement Period :- Ind AS.

- Initial recognition
- Subsequent Recognition

Measurement period

measurement upto 12 m from D.O.A.

A/L were measured at provisional values as on D.O.A. due to lack of information

In such cases acquirer shall report A/L at provisional values in its f/s

& when such additional information is received

facts & circumstances

within 12 m from D.O.A

after 12 m from D.O.A.

adjusted thr.

If situation exist on DoA.

↓

Δ in f.v. of A/L to actual f.v.

&

any diff. b/w actual FV & provisional value should be adj. through g/w or gain on B.P.

If situation did not exist on DoA.

↓

Adjust through P/L

Step 3 → N.A acq.

F.V. of all I.A. as on DoA + DTA − DTL + Reacq. + I.A. − PV of liab. as on DoA. − FV of Post Reti Ben. − FV of C.L. as on DoA.

- DTA − DTL → T.B. → C.A.; C.A. → FV
- Reacq. → i) FV ii) loss
  - a) amt p − C.A or b) S.A
- I.A. → i) amt p. ii FV of CL & Δ any → P/L
- M.P. → 12m
  - within 12m → Pr. → DoA → g/w / g on B.P.
  - within 12m → not Av. → P/L
  - after → P/L

HD summary

Question # 7	QUES. 3 ICAI SM

Scenario 1:

New information on the fair value of and acquired loan

Bank F acquires Bank E in a business combination 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 financial statements for the year ended September 30, 20X1, which indicate significant decrease in Borrower B's income from operations. Basis this, the fair value of the loan to B at the acquisition date is determined to be less than the amount recognised earlier on a provisional basis.

Scenario 2:

Decrease in fair value of acquired loan resulting from an event occurring during the measurement period

Bank F acquires Bank E in a business combination in October 20X1. The loan by Bank E to Borrower B is recognised at its provisionally determined fair value. In December 20X1, F receives information that Borrower B has lost its major customer earlier that month and this is expected to have a significant negative effect on B's operations.

Required:

Comment on the treatment done by Bank F

Scenario 1: The new information obtained by F subsequent to the acquisition relates to facts and circumstances that existed at the acquisition date. Accordingly, an adjustment (i.e., decrease) to in the provisional amount should be recognised for loan to B with a corresponding increase in goodwill.

Scenario 2: Basis this, the fair value of the loan to B will be less than the amount recognised earlier at the acquisition date. The new information resulting in the change in the estimated fair value of the loan to B does not relate to facts and circumstances that existed at the acquisition date, but rather is due to a new event i.e., the loss of a major customer subsequent to the acquisition date. Therefore, based on the new information, F should determine and recognise an allowance for loss on the loan in accordance with Ind AS 109, *Financial Instruments: Recognition and Measurement*, with a corresponding charge to profit or loss; goodwill is not adjusted.

P/L :

Step 4 Purchase Consideration

Particulars	Amount
F.V. of assets given up by acquirer as on DOA. (Note-1)	xxx

Cash Consideration xxx

F.V. of Equity inst. to be issued as on DoA. xxx

{ Eq. ins. issued by acquirer × FV of E. I. of acquirer. }

Or.

{ Swap ratio × no. of E. sh. of acquiree. × FV. of E.I of acquirer }

Or

{ if S.R. is not given

then ⇒ $\dfrac{\text{FV of E.I. of acquiree}}{\text{FV of E.I. of acquirer}}$ }

Or

{ if f.v. of Equity inst. is not given

$FV = \dfrac{\text{FV of N.A. as on D.o.A.}}{\text{no. of eq. shares.}}$ }

FV of Contingent Consideration (Note 2) xxx

P.V. of any Deferred consideration (Note 3) xxx
SBP awards. (Note-4) xxx

P.C. for B/C

+/- Separate transaction cost (Note-5) xxx
(amt for any preexisting relationship)

total amt. payable to vendor xxx

Note-1 FV of assets given up by acquirer on D.o.A.
Any diff. b/w CA (B.V.) & FV. is trf to P/L.

Question # 8

A Ltd acquires B Ltd and the owners of B Ltd are given Land owned by A Ltd in lieu of entire 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.

Solⁿ :-

In the books of A Ltd.

i) Land Dr 900
To P/L. 900

N.A.	700
PC	1000

g/w 300

ii) N.A. Dr 700
G/W Dr 300
To B Ltd. 1000

iii) Vendor (B Ltd) Dr 1000
To Land 1000

Note-2 FV of Contigent Consideration.

↓

(Uncertain & Conditional)

payable to acquiree entity

i) it is measured at FV on DoA.

ii) Recognition

Initial

Subsequent.

payable to employee

Situation 1 (Only for Sr. term)

then C.C. should be treated as E.B.E. & it should not form part of P.C.

(on DOA)

Vendor Dr
To MoP
To Prov. for C.C.

B/S

liability
if settled in form other than equity.

Equity
if settled in form of Equity

(at yr. end)

if there is Δ in f.v. of C.C. & C.C. is liability
FV TP/L.

if C.C. is equity
ignore

Situation 2 (target based)

it will be part of P.C. & accing will be done using same as amount payable to entity.

Situation-3.
(Sr. term + target based)

Check.
if Sr. term ≥ target
follow S_1
if Sr. term < target.
follow S_2

On date of settlement.

Prov. for CC Dr
To Bank/equity

CASE STUDY – 15 (ILL 26 OF SM)

Contingent consideration- ~~**Payments to employees who are former owners of acquiree**~~ ABC Ltd. acquires all of the outstanding shares of XYZ Ltd. in a business combination. XYZ Ltd. had three shareholders with equal shareholdings, two of whom were also senior-level employees of XYZ Ltd. and would continue as employee post acquisition of shares by ABC Ltd.

EBE

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

The additional payment of each of these employee shareholders will be forfeited if they leave the employment of XYZ Ltd. at any time during the two years following its acquisition by ABC Ltd. The salary received by them is considered reasonable remuneration for their services.
How much amount is attributable to post combination services?

ANALYSIS

In the instant case, the additional consideration of ₹ 1,50,00,000 to ₹ 2,00,00,000 represents compensation for post-combination 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 acquisition, hence shall be treated as EBE.
Therefore, only ₹ 60,00,000 is attributed to consideration in exchange for the acquired business.

CASE STUDY – 14 (ILL 25 OF SM)

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 contingent payment of USD 2 million. The terms of the agreement provide for payment 2 years after the acquisition if the following conditions are met:

- → The EBIDTA margins of the Company after 2 years after the acquisition is 21%.
- → The former shareholder continues to be employed with VIVA Ltd for at least 2 years after the acquisition. No part of the contingent 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 continue in employment and the contingent consideration will be forfeited if the employment is terminated or if he resigns. Accordingly, only USD 20 million is considered as purchase consideration and the contingent consideration is accounted as employee cost

Q.9. H.W.

Question # 10 Q.10 OF ICAI {MTP – SERIES I – NOV – 2019} {RTP – MAY – 19, 22}

How contingent consideration payable in relation to a business combination should be accounted for on initial recognition 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 consideration 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 after one year if the profit before interest and tax of B Ltd. for the first year following acquisition exceeds INR 1 crore.

The fair value of the shares of A Ltd. on the date of acquisition is INR 20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is ₹ 25 lakhs.

During the year ended 31 March 2017, the profit 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

Continuing with the fact pattern in (a) above except for: The number of shares to be issued after one year is not fixed. Rather, A Ltd. agreed to issue variable number of shares having a fair value equal to ₹ 40 lakhs after one year, if the profit before interest and tax for the first year following acquisition exceeds ₹1 crore. A Ltd. issued shares with ₹ 40 lakhs after a year.

Solⁿ :- Case 1 :-

Initial Recognition

∵ C.C. will be satisfied by way of issue of E.I.

∴ C.C. will be classified as Equity defined under Ind AS 32.

∴ this C.C. in form of Equity will be recognised @ fair value as on D.O.A. ₹ 25 lakhs.

Subsequent Recognition

There will be no change in fair value of C.C.

at year end as it is equity and equity is not subject to Δ f.v. at yr. end as per IND AS 32.

Calⁿ of P.C.

i) F.V. of Eq. Ins. = 10 Lakh × ₹ 20 = 200

ii) F.V. of Con. Cons. = 25

P.C. (IND AS 103) 225

Case 2 :-

Initial recognition

∵ C.C. will be satisfied with variable no. of equity instruments equal to 40 Lakhs on date of settlement.

∴ We can say equity shares issued as consideration to satisfy C.C. of ₹ 40 Lakhs.

∴ C.C. should be treated as liability as per IND AS 32.

P/L Dr 15 (40-25)

To Prov. for C.C. 15

no. of eq. Im. ins = $\frac{40 L}{₹25}$

= 160000 shares.

Cap^n of P.C.

i) P.V. of Eq. ins. = 10L × ₹20 = 200

ii) F.V. of C.C. = 25

225

Question # 9

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

1. Cash payment of ₹ 15,000
2. An additional cash payment of ₹2,500 provided profit increases by 25% in next three compared to previous year.
3. Net Assets of B as on DOA is ₹10,000
4. FV of contingent consideration after 1 year is ₹3,300

Journalise

Soln :-

N.A. of B = 10000

P.C.

Cash 15000

+ pr. for C.C. 2500   17500

GW 7500

D.O.A. → J.E.

i) N.A. of B Dr 10000
Goodwill Dr 7500
To Vendor 17500

ii) Vendor Dr 17500
To Cash 15000
To Prov. for C.C. 2500

year end
P/L Dr 800
To Prov. for C.C. 800

Note-3 P.V. of Deferred Consideration
↓
(Certain & unconditional)

i) it will be paid in fixed amount after fixed period of time
∴ it should be measured at P.V. of amount which is payable & interest should be unwound each year.

ii) it should be recognised as liability, ∵ obligation to pay cash cannot be avoided by entity.

iii) a/cing

I.R.	S.R.	Settlement date
Vendor Dr To D.C.	Int. Dr To D.C. (every yr)	D.C. Dr To C/B

Question # 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 after 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 consideration?

Soln :- Statement of P.C. ₹ in lacs.

i)	Cash Consideration	200
ii)	P.V. of Deferred consideration {₹300 Lakhs × PVAF @10% for 2 years}	247.93
	P.C.	447.93

Amortisation Table

yr	op. bal	Int @ 10%	inst.	Cl. bal.
1	247.93	24.79	—	272.72
2	272.72	27.72	—	300

J.E.

I.R.

Vendor Dr 447.93
To Bank 200
To D.C. 247.93

S.R.

Int Dr 24.79
To D.C. 24.79

Int Dr 27.72
To D.C. 27.72

S.D.

D.C. 300
To bank 300

Note-4 Share based payment awards.

acquiree Co. has SBP scheme & acquisition took place during V.P.

Such awards are replaced by parent (acquirer) (employees will get e. sh of P.)

(Replacement award)

Expired
→ F.V. of original SBP scheme as on D.O.A.
÷

Unexpired
→ Total FV of SBP scheme (Replacement)

Such awards are still existing as SBP Plan is not replaced.
{employees will get E. Sh. of subsidiary}

→ In the books of P.
No entry.

Original v.p.
or
Revised v.p.

×

Expired period

⇓

xxx (a)

↓

i) include in P.C.

ii) vendor Dr

To MoP

To SBP.

$$\frac{(a)}{XXX\ (b)}$$

↓

This should be recognised as EBE over remaining period.

↓

In the books of P

EBE Dr

To SBP

In the book of S. (acquiree)

as usual we recognise exp. as EBE (IND AS 102)

Cons. F/S (group)

N.A. of S. Dr xxx

To NCI xxx

HD —100% ~~80%~~→ Buddy

↓

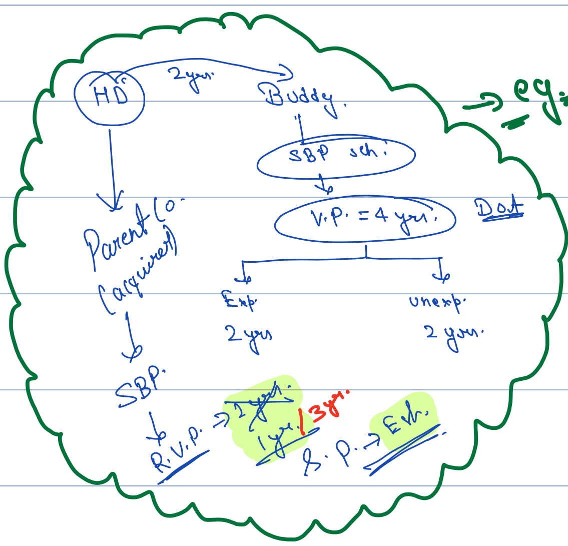
SBP (Not Rep)

↓

group

H.D.

↳ SBP → NCI 20%.



→ eg.

Fair Value of Share based payments = 500

Sh of P. will be given as Replacem. award.

VESTING PERIOD= 4
Revised Vesting Period = 5 years
Expired Period = 2 years

VESTING PERIOD= 5 Years
Revised Vesting Period = 4 years
Over = 2 years

Exp.

$\Rightarrow \frac{500}{5} \times 2$

$\Rightarrow 200$

Unexp.

500
− 200
300

Remaining 3 years.

Exp.

$\frac{500}{5} \times 2$

$\Rightarrow 200$

Unexp.

500 − 200

$\Rightarrow 300$

Remaining 2 years.

Question # 12	**(ILL 27 OF SM)**

Green ltd acquired Pollution Ltd as a part of the arrangement Green ltd had to replace the Pollution Ltd.'s existing equity-settled award. The original awards specify a vesting period of five year. At the acquisition date, Pollution 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 vesting period is reduced to 2 years (from the acquisition date)

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

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

At the acquisition date all awards are expected to vest

Soln :-

Expired period = 2 years

V.P. (original) = 5 years

Revised V.P. (2 + 2) = 4 years

Expired portion = $\frac{500}{5} \times 2 = 200$ (part of P.C)

Unexpired portion = 600 − 200

= 400 will be recognised as E.B.E. for 2 years.

Solution

Pre-combination period

The value of the replacement awards will have to be allocated between the pre-combination and post combination period. As of the acquisition date, the fair value of the original award (₹ 500) will be multiplied by the service rendered upto acquisition date (2 years) divided by greater of original vesting period (5 years) or new vesting period (4 years). Accordingly, ₹ 500 x 2/5= ₹ 200 will be considered as pre-combination service and will be included in the purchase consideration.

Post- combination period

The fair value of the award on the acquisition date is ₹ 600 which means the difference between the replacement award which is ₹ 600 and the amount allocated to pre-combination period (₹ 200) is ₹ 400 which will be now recorded over the remaining vesting period which is 2 years as an employee compensation cost.

Question # 13	**(ILL 28 OF SM)**
P a real estate company acquires Q another construction company which has an existing equity settled share based payment scheme. The awards vest after 5 years of employee service. At the acquisition date, Company Q's employees have rendered 2 years of service. None of the awards are vested at the acquisition date. P did not replace the existing share-based payment scheme but reduced the remaining vesting period from 3 years to 2 year. Company P determines that the market-based measure of the award at the acquisition date is ₹ 500.	

Soln :- Non Replacement award means employee will get equity shares of acquiree (sub.) i.e. Q Ltd.

On DoA.

Net asset of Q Ltd.
To NCI

expired portion $= \frac{500}{5} \times 2 = 200$

Unexpired portion $= 500 - 200 = 300$ will be recognised over 2 years by Q Ltd.

QLtd (SFS)

SBPR.

(IND AS 102)

CFS (Group)

NCI

AS-21

Consoli Procedu

IND AS 110

Cons. alcing.

A

60%

55%

B

31^87.

B/C

D.O.A

SFS.

(P) ✓

(S) ✓

CFS.

(grp) ✓

HD POV on Consolidation

AS 21 V/s Ind AS 110

H.W.

Question # 14 **PRACTICE Q.4 ICAI SM**

Entity X acquired 100% of entity Y in a Business combination as per Ind AS 103. There is an existing Share based plan in Entity Y with a vesting condition for 3 years in which 2 years has already lapsed at the date of such business acquisition. Entity X agrees to replace the existing award for the employee of combined entity. The details are as below –

Acquisition date Fair value of SBP	INR 300
No. of years to Vest after acquisition	1 year
Fair Value of award which replaces existing	INR 400

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

Note-5 Separate Transaction Cost (S.T.C.)

i) any amount paid or received by acquirer due to any pre existing relationship between acquirer & acquiree. Then such payment is known as STC

ii) measurement of STC =

Non Contractual Relation → @ F.V. of settlement.

eg → Defendant & plentiff

Contractual Relation →
a) FV − C.A.
Or
b) settlement amt

eg → licensor & licensee
franchisor & franchisee

Refer Pg. 90 & 91 eg → 1, 2 & 3.

Step 5 Calⁿ of G/W Or Gain on B.P.

Particulars	Amount
Net assets acquired as on D.O.A from acquiree (step 3)	xxx
less: i) p.c. paid on D.O.A. (step 4)	xxx
ii) f.v. of any previously held invt i.e. investments before D.O.A.	xxx

iii) Non Controlling int. (Note-1) xxx xxx
GIW or Gain on B.P. xxx

Note-1 Non Controlling interest

Meaning

1) shares of acquiree other than parent Co.
2) Shares which are not held by parent
3) They are owners without Control

∵ they are minority (≤ 50%)
∴ they are Known as N.C.I.

Measurement

Method 1

NCI @ PSNA (if Q.R.S.)

NCI = N.A. of S as on DoA. (step3) × NCI %
= ------

Method 2

NCI @ F.V.

- FMV of S as on DoA.
  - no. of E.I. held by NCI × FV of S as on DoA.
  - ⇒ ------
- prop. sh. of Parent
  - Suppose P (80%) = 10000
  - ∴ NCI (20%) = ?
  - ∴ NCI = 2500 $\frac{10000}{80\%} \times 20\%$

Note :- i) if NCI @ PSNA & GIW arises then it is Partial GIW.
ii) if NCI @ F.V. & GIW arises then it

is Full GW.

iii) NCI is shown as a separate line item in Equity head of Balancesheet in CFS of acquirer

iv) NCI is not applicable (does not arise) in case of B.Com. arise.

a) W.O.S. (100% stake of acquiree)

Or

b) in case of absorption (acquirer obtain control by acquiring N.A. of acquiree)

examples for NCI, g/w or G.O.B.P. :-

eg-1 A Ltd acquires 100% stake of B Ltd. FV of N.A of B as on DoA = 80000, A Ltd acquired it for ₹ 1 Lac.

Soln :-

N.A. of B as on DoA	80000
− PC	(100000)
g/w.	20000

eg-2 A Ltd. acquired 70% stake in B Ltd for

₹ 1 Lac. FV of N.A. of B = 80000
FV of NCI is = 26000

Soln

N.A. of B as on DoA		80000
− PC	100000	
NCI @ FV	26000	(126000)
	G/W to Full	46000

Case-3 A Ltd. acquired 70% stake in B Ltd for ₹ 1 Lac. F.V. of N.A. of B = 80000

Soln :-

N.A. of B as on DoA		80000
− PC	100000	
NCI @ PSNA (80000 × 30%)	24000	124000
	G/W	44000

eg-4 A Ltd acquired 70% stake of B Ltd for ₹ 100000 (7000 sh.)

FV of N.A. of B Ltd = 80000

FV of E.sh of B Ltd = ₹ 4

FV of E.sh of A Ltd = ₹ 12

FV of B as on DoA		80000
− PC	100000	
NCI @ FV (30000 sh × ₹4)	120000	220000
	G/W.	140000

20%
50%
70%

eg-5 A Ltd acquired 70% stake of B Ltd for ₹ 105000. F.V. of N.A. of B = 80000. NCI is valued on the same basis as inv. by A in B.

Solⁿ:-

N.A. of B Ltd as on DoA		80000
− PC	105000	
NCI @ FV $\left(\frac{105000}{70\%} \times 30\%\right)$	45000	150000
	G/W	70000

eg-6 A Ltd acquired 25% stake of B Ltd 2 yrs ago for ₹ 35000 where FV on DoA = 40000. A Ltd acquired further 45% on ---- for ₹ 60000.

FV of 1L E.Sh. of A = ₹ 15. as on DoA.
FV of 1000 E.sh. of B = ₹ 11 as on DoA.
FV of NA of B as on DoA = 80000
NCI @ FV.

Soln :-

N.A. of B as on DoA		80000
− PC (45%)	60000	
FV of 25% stake on DoA	40000	
NCI @ FV (3000 sh × ₹ 11)	33000	133000
	g/w	53000

Question # 16 (Similar to Nov 18) **(Q. 4 OF ICAI SM)**

A company acquired 90% equity interest in company B on 1.4.2010 for a consideration of ₹ 85 crores in a distress sale. The company valued the FV of NCI and FV of identifiable NA as ₹ 15 crore and ₹ 100 crore respectively

Calculate goodwill under both methods of valuing NCI

Soln :-

Case - 1 NCI @ FV

		₹ in cr.
N.A. of B as on 1-4-2010		100
− PC	85	
NCI @ FV	15	100
		−

Case - 2 NCI @ PSNA.

		₹ in cr.
N.A. of B as on 1-4-2010		100
− PC	85	
NCI @ PSNA (100 × 10%)	10	95
	g. on B.P.	5

Question # 15	(Q. 1 OF SM , SIMILAR TO DEC 20 8 MARKS)

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

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

Contingent consideration – of ₹ 7,00,000 if company's cumulative profit over next two year exceeds ₹ 70,00,000. As on the DOA it is considered probable and hence FV of contingent consideration is ₹ 3,00,000

Transaction cost – company pays acquisition 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 identifiable of B as on DOA - ₹ 60,00,000

Calculate PC and GW

Solⁿ:-

Step 1 Identify the acquirer

A's stake post acquisition in B Ltd = 90% (25% + 65%)

NCI = 10%

and B's stake in A Ltd post acq. = 5%

∴ Legal acquirer = accounting acquirer = A Ltd.

Step 2 Identify the D.O.A.

1st Nov is the date when further 65% stake was acquired and control was obtained.

Step 3 FV of N.A. of B Ltd as on DOA = ₹6000000

Step 4 Calcⁿ of P.C.

Cash consideration	5900000
FV of E.sh. issued (1L × ₹10)	1000000
FV of Contingent consideration	300000
P.C.	₹7200000

Step5 Calⁿ of g/w or gain on B.P.

FV of N.A. of B. as on DOA		6000000
- PC	₹7200000	
FV of 25% stake	2000000	
NCI @ FV	₹750000	9950000
g/w		3950000

HD Gift: Step6 Journal in books of A Ltd.

(₹ in Lakh)

SFS

DOA → 103

1) Inv. Dr ₹72
To Cash/Bank 59
To Equity 10
To Prov. for C.C. 3

(103)

CFS

DOA → 110

1) N.A. of S Dr 60L
Goodwill Dr 39.5L
(72 + 6 + 14) ← To Inv. 92L
To NCI 7.5

2) Inv Dr 14

To P/L 14 (109)

(Old inv = 6L B.V.
25%.
20L FV 14L.Δ)

3) P/L Dr 12.

(103) To C/B 12

Question # 19 **(SIMILAR TO Q.6 SM &NOV 18)**

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 off their investments in B Ltd. by a specified date, and accordingly they did not have sufficient time to find potential buyers. A qualified valuation professional hired by the management of A Ltd. measures the identifiable 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?

Solⁿ :-

		₹ in cr.
N.A. of B as on 1-1-20X1		20
− PC (cash)	15	
NCI @ FV	4.2	19.2
gain on Bar. purch.		0.8

Question # 17	Q. 8 OF ICAI SM [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 specified date. Therefore, they did not have sufficient time to market Beta Pvt. Ltd. to multiple potential buyers. The management of Alpha Ltd. initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirement of Ind AS 103. The identifiable assets are measured at ₹ 500 and the liabilities 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 identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non- controlling interest in Beta Pvt. Ltd. and the consideration transferred. After the review, it decided that the procedures and resulting measures were appropriate.
Calculate the gain or loss on acquisition of Beta Pvt .Ltd .and also show the journal entries for accounting of its acquisition. Also calculate the value of the non-controlling interest in Beta Pvt. Ltd. on the basis of proportionate interest method, if alternatively applied?

Sol^n :- Step1 :- Identify the acquirer

legal acquirer = Accounting acquirer = Alpha Ltd.

∵ Alpha Ltd = 80%
∴ Non controlling Interest = 20%

Step2 :- Identify the D.O.A.

⇒ 1-4-2011

Step3 :- Net Assets taken over

₹

F.V. of assets	500
− F.V. of liabilities assumed	(100)
N.A.To	400

HD MENTORING HARSHIT DWIVEDI

Step 4 P.C.

Cash consideration	300

Step 5 Cal^n of goodwill or gain on B.P.

Case 1 if NCI valued @ F.V.

N.A. of Beta pvt as on 1-4-2011		400
− P.C.	300	
NCI@FV	84	384
	Gr. on. B.P.	16

Case 2 if NCI @ PSNA.

N.A. of Beta pvt as on 1-4-2011		400
− P.C.	300	
NCI@ PSNA (400 x 20%)	80	380
	Gr. on. B.P.	20

Step 6 In the books of Alpha Ltd.

SFS

Invt in Beta Dr 300
To Cash 300

(NCI @ PSNA) CFS.

N.A. of Beta Dr 400
To invt in Beta 300
To NCI 80
To G. on B.P. 20

(NCI @ FV)

N.A. of Beta Dr 400
To invt in Beta 300
To NCI 84
To G. on B.P. 16

Question # 18 **[Q 9 ICAI SM ,RTP – NOV – 2018}**

ABC Ltd. prepares consolidated financial 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 consideration 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 contingent 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 contingent consideration was ₹ 2,50,00,000. On 31st March, 2018, the fair value of the contingent consideration was ₹ 2,20,00,000.

5. On 1st July, 2017, the carrying values of the identifiable 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 differences is 20%.
6. During the nine months ended on 31st March, 2018, JKL Ltd. had a poorer than expected operating performance. Therefore, on 31st March, 2018 it was necessary for ABC Ltd. to recognise an impairment of the goodwill arising on acquisition of JKL Ltd., amounting to 10% of its total computed value.

Compute the impairment of goodwill in the consolidated financial statements of ABC Ltd. under both the methods permitted by Ind AS 103 for the initial computation of the non-controlling interest in JKL Ltd. at the $\boxed{\text{acquisition date.}}$

Soln :-

(₹ in 000)

Step 1 Identify the acquirer

legal acquirer = accing acquirer = ABC Ltd.

∵ ABC Ltd = 75%

∴ NCI = 25%

Step 2 Date of acquisition

= 1-7-2017

Step 3 Calⁿ of Net assets acquired.

WN-1 Calⁿ of Deferred tax

CA = F.V. of assets t/o.		70000
TB = C.A. of assets t/o		60000
	T.T.D.	10000
	× Tax rate	20%
	DTL.	2000

FV of N.A. acquired	=	70000
− DTL (WN-1)	=	(2000)
		68000

Step 4 Purchase consideration

F.V. of E.I. issued.	$(12000 \times 75\% \times \frac{2}{3} \times ₹6.5)$	39000
PV of Deferred cons.	(7150 × @ 10% for 1 yr) (7150 × 0.9091)	6500
FV of Cont. Cons.		2500
	P.C.	70500

Step 5 Calⁿ of goodwill or gain on B.P.

if NCI @ PSNA			if NCI @ FV		
N.A. of JKL as on 1-7-2017		68000	N.A. of JKL as on 1-7-2017		68000
− P.C.	70500		− P.C.	70500	
NCI @ PSNA (68000 × 25%)	17000	87500	NCI @ FV (12000 × 25% × ₹6)	18000	88500
	g/w	19500		g/w	20500
− imp. loss @ 10%		(1950)			(2050)
g/w after imp.		17550			18450
		↓			↓

₹1950 loss of imp. is to be borne by ABC Ltd.

₹2050 loss of imp is to be borne by ABC & NCI.

75% 25%

MD Gift :- Step 6 In the books of ABC Ltd.

SFS

1-7-17. Inv in JKL Dr 70500
To Equity 39000
To D.C. 6500
To Prov for C.C. 25000

($6500 \times 10\% \times \frac{9}{12}$)

31-3-18. Int Dr 487.5
To D.C. 487.5

" Δ in FV of C.C. Prov. for C.C. Dr 3000
To P/L 3000

" —

CFS.

NCI @ FV

1-7-17. N.A. of JKL Dr 70000
G/W Dr 20500
To Inv 70500
To NCI 18000
To DTL 2000

— Do. —

— Do. —

NCI @ FV.

P/L Dr 1537.5

NCI Dr 512.5
To g/w 2050

if NCI @ PSNA

P/L Dr 1950
To g/w 1950

Question # 20	ILL 12 ICAI SM

Sita Ltd and Beta Ltd decides to combine together for forming a Dual Listed Corporation (DLC). As per their shareholder's agreement, both the parties will retain original listing 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 identifiable 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 acquisition

Soln :- Step1 Identify the acquirer

L.A. = N.A. Since No payment of P.C.

A.A = Sita Ltd. ∵ it has more B.M. and Controls composition of BOD in DLC. Or majority control in DLC.

Step2 Identify DoA. → N.A.

Step3 RV of N.A. acq. as on DoA.

F.V. of N.A. of Beta = 70 Cr.

Step4 P.C. = N.A.

Step 5 G/W or Gr. on B.P.

FV of N.A. of Beta = 70
FV of Beta Ltd. = 80

G/W. 10 Gr.

Question # 21 **(PRACTICE Q. 6 SM , RTP MAY 22)**

Entity A acquires entity B. Entity A agrees with the former shareholders of entity B to pay ₹ 900, with an additional payment of ₹ 500 if the subsequent earnings of entity B reach a specified target in three years. The former shareholders also become employees. On the acquisition date, the fair value of the net assets of entity B amount to ₹ 850, and the fair value of additional payment is estimated at ₹ 200.

At the acquisition date, the outflow of additional payment is not probable. Over the next three years, the cumulative earnings of entity B (before considering the effects of the additional payments) amount to ₹ 1,050. At the end of year three, entity A pays ₹ 500 as the conditions were met.

State the impact on the financial position and results of classifying the payments as remuneration and contingent consideration.

Solⁿ :- Step 1 Identify the acquirer

A Ltd.

Step 2 Identify the DoA.

N.A.

Step 3 Calⁿ of FV of N.A. Acq.

FV of N.A. 850

Step 4. P.C.

	Rem.	C.C.
Cash. Cons.	900	900

Prov. for C.C.	—	200
	900	1100

Step 5 Calⁿ of g/w / g. on B.P.

	Rem.	C.C.
FV of N.A. of B as on DoA	850	850
− PC	900	1100
NCI	N.A.	N.A.
g/w.	50	250

Impact on financial position & Results.

	Rem.	C.C.
Earnings before Addⁿ Payment	1050	1050
impact of additional payment.	(500)	(300)
Reported Results.	550	750

→ ∵ prov. for 200 was there as P.C.

Question # 22 **(PRACTICE Q. 5 SM , RTP MAY 21)**

Bima Ltd. acquired 65% of shares on 1 June, 20X1 in Nafa Ltd. which is engaged in production 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 acquisition. The fair value of Nafa Ltd.'s identifiable 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 consideration on the date of acquisition. The quoted market price of shares of Bima Ltd. on the date of issue was ₹ 25 per share.

Bima Ltd. also agrees to pay additional consideration of ₹ 15,00,000, if the cumulative profit earned by Nafa Ltd. exceeds ₹ 1 crore over the next three years. On the date of acquisition, Nafa Ltd. assessed and determined that it is considered probable that the extra consideration will be paid. The fair value of this consideration on the date of acquisition is ₹ 9,80,000. Nafa Ltd. incurred ₹ 1,50,000 in relation to the acquisition. It measures Non-controlling interest at fair value.

How will the acquisition of Nafa Ltd. be accounted by Bima Ltd., under Ind AS 103?

Prepare detailed workings and pass the necessary journal entry.

Solⁿ:- Step 1 Identify the acquirer

Bima Ltd = 65%

NCI = 35%

Step 2 Identify the D.O.A.

1-6-2011

Step 3 N.A.

FV of I.N.A.	8000000

Step 4 P.C.

Cash	5000000
Equity sh. (50000 sh × 25)	1250000
C.C.	980000
	7230000

₹10 NV ; ₹15 S.P.

Step 5 Calⁿ of g/w / G on B.P.

FV of N.A. as on DoA		8000000
− PC @ 65%	7230000	
NCI @ FV	420000	7650000
(100000 × 35% × ₹12)	C.R.	350000

Step 6 In the books of Bima Ltd.

SFS

Inv in E.sh of Nafa Dr 7230000
To CIB 5000000
To ESC (50000 x 10) 500000
To SP (50000 x 15) 750000
To Prov. for C.C. 980000

CFS

NA of NAFA Dr 80L
To Inv in N. 72.3
To NCI 4.2
To C.R. 3.5

Step 6 :- Journal entries in the books of acquirer

i) Assets t/o of acquiree Dr xxx (step 3)
Goodwill Dr xxx (step 5)
To Liabilities t/o of acquiree xxx (step 3)
To NCI xxx (step 5)
To MoP or inv. xxx (step 4)
↳ CIB
↳ ESC
↳ SP
↳ D.C.
↳ Prov. for C.C.

↳ SBP Res. (pre combination)

2) S.T.C.

STC Dr

To Bank

(beware of old prov.)

3) Unwinding of Int.

Int Dr

To D.C.

4) Misc. entries.

↳ write off STC to P/L (Beware of old prov.)

↳ write off Int. to P/L.

↳ Revalue previously held inv. through P/L

↳ write of acquisition cost to P/L

↳ finder fees

↳ Due diligence

↳ legal fees

↳ stamp duty

↳ Investment banker fee.

↳ Bonus to employee for doing successful acquisition.

↳ if FV of All changes during measurement period.
if NA increases.
↳ if decreases
↳ then viceversa.

NCI @ PSNA
NA Dr
To GW
To NCI

NCI @ FV
NA Dr
To GW.

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

Other Informations:

1. FV of Property Plant and Equipment and Furniture is ₹ 9,00,000 and ₹ 2,00,000 respectively
2. FV of Inventory and Trade Receivables is ₹3,00,000 and 3,50,000 respectively
3. Liabilities were assumed at carrying amount
4. A ltd agreed to pay following consideration
(a) Cash of ₹ 5 per share to shareholder of B ltd — C.C
(b) 2 shares of ₹ 10 each for every 5 ES held, FV of ₹12 to shareholders of B ltd — E.
(c) ₹ 5,00,000 will be paid to promoters after 3 year Discounting rate 8% — D.C.
(d) ₹ 1,00,000 will be paid to directors, if combined earnings is increased by 25%. FV of this consideration as on 1.8.2017 is ₹35,000 — C.C.
(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 — STC.
(f) B ltd had share based awards whose FV on 1.8.2017 was ₹ 3,00,000 with vesting 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 vesting period decided was 4 year — SBP.
5. Acquisition cost ₹ 1,00,000 paid by A Ltd

1 + 4.
⇒ 5.

Solⁿ :- Step 1 Identify the acquirer

LA = A.A. = A Ltd = 100%

Step2 Identify the D.O.A.

1-8-2017

Step3 FV of Net assets acquired as on DOA.

Particulars		Amount
PPE		900000
Furniture		200000
Inventory		300000
Trade Receivables		350000
Bank		700000
less:	Non Current liability	(500000)
	Current liability	(200000)
	Total	1750000

Step4 Purchase Consideration

Particulars	workings	amount
Cash Consideration	₹5 × 100000	500000
Equity Instrument	100000 sh × $\frac{2}{5}$ × ₹12	480000
P.V. of D.C.	500000 × PVf (8% for 3 yrs) 500000 × 0.7938	396900
F.V. of Conti. Cons.		35000

SBP awards

Original V.P = 3 yrs 60000

Revised V.P. = 1 + 4 = 5 yrs

$\left(\frac{300000}{5 \text{ yrs}} \times 1 \text{ yr} \right)$

Note :- unexpired portion of SBP = 350000 − 60000 = 290000 is EBE w/o over Remaining 4 years.

amount payable to vendor	1471900
− Seperate Transaction cost	(90000)
P.C.	1381900

Step 5 goodwill or Gain on B.P.

FV of N.A. acqu. as on 1-8-17	1750000
less P.C.	1381900
Gr. on B.P.	368100

Step 6 In the books of A Ltd.

1) PPE Dr 900000

Inventory Dr 300000

Furniture Dr 200000

T.R. Dr 35000

Bank Dr 700000

S.T.C. Dr 90000

To Non C.L. 500000

To C.L. 200000

To Cap. Res. 368100

To vendor 1471900

2) Vendor Dr 1471900

To Bank 500000

To Equity 480000

To D.C. 396900

To P.F.C.C. 35000

To SBP Res. 60000

3) Prov. for damage Dr 40000

P/L Dr 50000

To STC 90000

4) P/L Dr 100000

To Bank 100000

Own.

Question # 24 — PRACTICE Q 9 SM , RTP NOV 23

Mini Limited is a manufacturing entity in textile industry. Mini Limited decided to reduce the cost of manufacturing by setting up its own power plant for their captive consumption. As per market research report, there was non-operational power plant in nearby area. Hence, it decided to acquire that power plant which was having capacity of 80MW along with all entire labour force. This Power entity was owned by another entity Max Limited. Mini Limited approached Max Limited for acquisition of 80MW power plant at following terms:

1. Mini Limited will seek an independent valuation for determining fair value of 80MW power plant.
2. Value of other Non-current assets acquired, and Non–current financial liabilities assumed is ₹ 11.10 million and ₹ 32 million respectively.
3. Consideration agreed between both the parties is at ₹ 51 million.

Both the parties agreed to the terms and entered into agreement on 1st April, 20X1 with immediate effect.

Due to unavoidable circumstances, valuation could not be completed by the time Max Limited finalizes its financial statements for the year ending 31st March, 20X1.

Max Limited's annual financial 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 after acquisition date, Mini Limited received the independent valuation, which estimated the fair value of 80MW Power Plant as ₹ 54.90 million.

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

a. Determine whether transaction should be accounted as asset acquisition or business combination.

b. Calculate Goodwill / Bargain Purchase due to the above acquisition. S

c. Pass necessary journal entities in the books of Mini Limited as per Ind AS 103 and prepare balance sheet as on date of acquisition. Step 7.

d. Determine whether any adjustment is required in case of valuation received subsequent to acquisition. If yes, pass the necessary entries in the books of Mini Limited. M.E.P.

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 financial 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 financial Inst	717
	Reserves and surplus	2,481
	Total equity	3,493
	Liabilities	
	Non-current liabilities	
	Financial Liabilities	
	Borrowings	
	Total non-current liabilities	268
	Current liabilities	
	Financial Liabilities	
	(i) Trade payables	302
	Other current liabilities	36
	Total current liabilities	338
	Total liabilities	606
	Total equity and liabilities	4,099

Sol^n :- a) Ind As 103 defines Business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing g & sr. to customers, generate investment income or generate other income from ordinary activities.

In the given Scenario acquisition of power plant along with license to operate power plant and work force will be considered as integrated S.O.A. that is capable of generating power.

Hence Transaction will be Considered as B/C. and not a asset acqition. Therefore Acquisition Method of acing will be applied.

(₹ in million)

b) Step 1 acquirer → mini Ltd.

Step 2 D.O.A → 1-4-2011

Step 3 FV of N.A. acquired.

PPE	46.90
Other N.C.A.	11.10
License (I.T.A.)	5
− Non C.L.	(32)
	31

Step 4 P.C. = 51

Step 5 Calⁿ of G/W or gain on B.P.

FV of N.A. acquired		31
− PC		51
	G/W	20

c) Step 6 Journal In the books of Mini Ltd.

1) PPE Dr 46.90
O.N.C.A Dr 11.10
License Dr 5
Goodwill Dr 20
To Non. C.L. 32
To vendor 51

2) Vendor Dr 51
To bank 51

Step 7 Balance Sheet as on 1-4-2011

Particulars	Notes	₹ in mill
Assets		
1) Non C.A.		
a) PPE	1	2204.90
b) I.T.A.		5
c) Capital WIP		12
d) goodwill on acq.		20
e) DTA.		324
f) other Non C.A.	2	36.10
Total Non C.A.		2602
2) Current Assets		
a) Inventories		368
b) financial Assets		
i) investments		45
ii) T/R.		762
iii) C&CE.	3	59
iv) Bank bal other than above		28
v) other F.A.		267
Total C.A.		1529
Total assets		4131

Notes to a/c.

Note-1 PPE

PPE (existing)	2158
PPE acqui	46.90
	2204.90

Note-2 Other N.C.A.

Existing	25
acquired	11.10
	36.10

Note-3 C&CE.

Existing	110
– paid on P.C	(51)
	59

Note-4 T. N.C.L.

Existing	268
purch.	32
	300

Equity and liabilities

1) Equity		
1) ESC		295
2) O.E.		
Equity comp. of F.I.		717
Rds.		2481
Total Equity		3493
2) Liabilities		
a) NCL		
FL		
Borrowings.		
Total NCL	4	300
b) C.L.		
P.L.		
i) T/P.		302
ii) Other C.L.		36
Total C.L.		338
Total Liability		638
Total E & Lia.		4131

d) Ind As 103 provides measurement period where in, if all the required information is not available on DOA for valuation of A&L.

Then entity can do price allocation of A&L on provisional basis, when updated information is received as regards to valuation of A&L within 12m from DOA and new info. obtained about the facts and circumstances that existed on DOA and if known, would have affected valuation of A&L. as on DOA.

then any change in the value of A&L acquired will be adjusted against goodwill.

Question # 25 ILL 40 OF ICAI SM , SIMILAR TO MAY 22, NOV 19 , MAY 25 , MTP S II MAY 19

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

	P	D
Property, Plant and Equipment	300	500
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 of P Ltd & 100 each of D Ltd.	500	400
Reserves and surplus	730	180
OCI	80	45
Non-Current Liabilities		
Long term borrowings	250	200
Long term provision	50	70
Deferred tax	40	35
Current Liabilities		
Short term borrowings	100	150
Trade payable	250	300
	2000	1380

Other Information

a) P acquired 70% of D on 1.4.2002 by issuing its own shares in the ratio 1ES for every 2ES. FV of ES of P is ₹40

b) The FV exercise resulted in following

1. PPE FV as on 1.4.2002 - ₹ 350 lakhs
2. P agreed to pay higher of ₹ 35 lakhs or 25% of any excess profit of 1st year after acquisition over its profits in preceding 12 months before acquisition
   The additional amount will fall due after 2 years D ltd has earned a profit of ₹ 10 lakh in preceding 12 months before acquisition 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 after acquisition   SBP.
4. D had certain equity-based awards which got replaced by the new awards issued by P. as per the original awards the vesting 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 vesting 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 estimated FV of the liability to be ₹ 5
6. The applicable tax rates for both the entities is 30%

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

4
2
1 ~~2~~

Assume 10% Disco. rate.

Soln :- Step 1 Identify the acquirer

L.A. = A.A. = P Ltd.

$\because$ P Ltd = 70%

$\therefore$ NCI = 30%

Step 2 D.O.A $\Rightarrow$ 1-4-2002

Step 3 N A To

WN-1 Calh of DTA/DTL

BV/FV   T.B/C.A.   Diff.

PPE	350	500	150 DTD
Prov. for C.L.	5	0	5 DTD
		D.T.D.	155
		X T.R.	30%
		DTA.	46.5

PPE	350
Investment	100
Inventory	150
T/R.	300
C/B	100
F.A.	230
DTA (WN-1)	46.5
– long term Borrowings	(200)
– long term provisions	(170)
– D.T.L.	(35)
– S.T.B.	(150)
– T.P.	(300)
– prov. for Cont. Liab.	(5)
	516.5

Step 4 Cal^n of P.C.

Particulars	Workings	amount.
1) FV of E.I. issued.	$(42 \times 70\% \times \frac{1}{2} \times ₹40)$ ₹40 → ₹10 N.V., ₹30 S.P.	56
2) P.V. of Def. Com.	(35L × PVAF @10% for 2 years)	28.93
3) S.B.P. awards	Old VP. = 4 Rev. VP = 3 $\left(\frac{5}{4} \times 2 = 2.5\right)$ Note :- 8 − 2.5 = 5.5 is EBE which will be w/off in rem. V.P.	2.5
	P.C.	87.43

Note :- Amount payable to founder shareholder will be treated as EBE. and it will be acted under Ind As 102 ∵ its completely based on service term.

Step 5 Cal^n of G/W or Cr on B.P.

FV of Net assets as on DoA. (Step 3) 516.5

— P.C. (Step 4) 87.43

NCI @ PSNA (516.5 × 30%) 154.95 — 242.38

C.R. 274.12

Step 6 HD Gift. In the books of P.

SFS

Invt in D Dr 87.43
To ESC (4L × 70% × ½ × 10) 14
To DC 28.93
To SP (4L × 70% × ½ × 30) 42
To SBP R. 2.5

CFS

N.A. of D Dr 516.5
To invt 87.43
To NCI 154.95
To C.R. 274.12

Step 7 Consolidated Balance Sheet of P Ltd as on 1-4-202

Particulars	Notes	Amount
Assets.		
1) Non C.A.		
a) PPE	1	650
b) Investments (400+100)		500
c) DTA	WN-1	46.5
2) C.A.		

Notes to A/C

1) PPE

P	300
+ acqui	350
	650

2) ESC

E sh of P Ltd @

a) inventory (250+150)		400	₹10 each	500
b) F.A. (400+230)		630	+ E.sh. issued	14
c) T/R. (450+300)		750	to sh. of D.Ltd	
d) C & CE (200+100)		300	(4L×70%×½×10)	
Total		**3276.5**		514

Equity & Liabilities

	Note	Amount		
1) Shareholders funds			3) O.E.	
a) ESC	2	514	R&S of P	730
b) O.E.	3	1128.62	OCI of P	80
c) NCI	step 5	154.95	S.P.	42
2) NCL			(4L×70%×½×30)	
a) LTB (250+200)		450	SBPR	2.5
b) LTP (50+70)		120	Capital R. (step 5)	274.12
c) DTL (40+35)		75		1128.62
d) D. Con.	(step 4)	28.93		
3) C.L.				
a) STB (100+150)		250		
b) T/P (250+300)		550		
c) P for C.L.	(step 3)	5		
		3276.5		

Question # 26 **RTP MAY 2023**

'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 additional 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:

Liabilities	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:

Liabilities	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 liabilities	2,50,000		
Total	29,50,000	Total	29,50,000

In relation to the acquisition of Quick Bikes Limited, you are required to:

1. Pass the necessary journal entries to give effect of business combination in accordance with Ind AS 103 as at acquisition date 1st January, 20X2. NCI is measured by the entity at fair value. Provide working notes, Ignore deferred tax implication; and
2. Prepare a consolidated balance sheet of High Speed Limited as at 1st January, 20X2

Soln :- Step1 Acquirer

High speed Ltd = 55%

∴ NCI = 45%

Step2 DOA. → 1-1-02

Step3 FV of N.A. acquired

PPE	750000
Investment in bonds	5000000
TIR.	50000
Brand	350000
− TIP	(150000)
Total	1500000

Step4 P.C.

Cash Consideration 500000

Step5 goodwill or Gain on B.P.

FV of N.A. acquired		1500000
− PC	500000	
− FV of inv. earlier held (30%)	600000	
$\left\{ \frac{500000}{25\%} \times 30\% \right\}$		
− NCI @ FV	900000	2000000
$\left\{ \frac{₹1100000}{55\%} \times 45\% \right\}$.	G/W	500000

Step6 Journal as on 1-1-02

1) Inv. in E. sh. of Q.B Dr 100000

To P/L 1000000

2) PPE Dr 750000

invt in bonds Dr 500000

T/R Dr 50000

Brand Dr 350000

goodwill Dr 500000

To invt in E.sh. of Q.B. 1100000

To NCI 900000

To T/P 150000

Step 7 Cons. B/S

Particulars	Notes	amount
Assets		
a) Non C.A.		
i) PPE	1	2100000
ii) ITA.	2	350000
iii) goodwill	(step 5)	500000
iv) N.C. Invt.		500000
b) C.A.		
a) F.A.		
i) CSCE.		520000

Notes to a/c.

1) PPE

H.S Ltd	13.5	
Q.B Ltd	7.5	21L

2) ITA.

Brand	350000

3) T/R

H.S.	80000

ii) TIR	3	13000	Q.B		5000
		4100000			13000

HD MENTORING HARSHIT DWIVEDI

Equity & Liabilities.

1) Equity			4) TIR	
a) ESC		500000	H.S.	300000
b) Other E (R&S)		1600000	Q.B	150000
(15L + 1L)				450000
c) NCI	(steps)	900000		
2) NCL		—		
3) CL.				
a) F.L.				
i) Borrowings.		400000		
ii) T.P.	4	450000		
b) O.C.L.		250000		
		4100000		

Question # 27 PRACTICE Q 2 SM MTP MAY 19 & RTP NOV 19 May23, May22

H Ltd. acquired equity shares of S Ltd., a listed company, in two tranches as mentioned 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-mentioned companies have Rupees as their functional 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 functional 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 Liabilities		
Financial Liabilities	-	-
• Borrowings	20.00	20.00
Current Liabilities		
- Financial Liabilities		
• Trade Payables	28.00	28.00
- Provision for warranties	3.00	3.00
- Current tax liabilities	4.00	4.00
	208.00	

Other information:

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 inception of the lease was 1st April, 20X0. On the inception of the lease, S Ltd. had correctly classified the lease as a finance lease. However, if facts and circumstances as on 1st April, 2007 are considered, the lease would be classified as an operating lease.
3. Following is the statement of contingent liabilities of S Ltd. as on 1st January, 2007

Particulars	Fair value (₹₹in crore)	Remarks
Law suit filed by a customer for a claim of ₹ 2 crore	0.5 ✓0	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Any amount which would be paid in respect of law suit will be tax deductible. → 0
Income tax demand of ₹ 7 crore raised by tax authorities; S Ltd. has challenged the demand in the court.	2.0 ✓	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

→ PPE → FV 1.2.

ignore.

FL → OL.

T.B- (2-F) ⇒ 2+0 ⇒ 2

(x) FV. (A/C) (0.5+2) ⇒ 2.5

Ind AS 12.

FV 10-1 ⇒ 9. cos.

4. In relation to the above-mentioned contingent liabilities, S Ltd. has given an indemnification undertaking to H Ltd. up to a maximum of ₹ 1 crore.
5. ₹ 1 crore represents the acquisition date fair value of the indemnification undertaking.
6. Any amount which would be received in respect of the above undertaking shall not be taxable.
7. The tax bases of the assets and liabilities of S Ltd. is equal to their respective 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 consideration of the additional 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. Additionally, 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 estimated the fair value of this obligation as on 1st January, 2007 and 31st March, 2007 as ₹ 22 crore and ₹ 23 crore respectively. The change in fair value of the obligation is attributable to the change in facts and circumstances after the acquisition date.
13. Quoted price of equity shares of S Ltd. as on various dates is as follows

    As on November, 2006 — ₹ 350 per share — P.Y.
    As on January, 2007 — ₹ 395 per share — DOA
    As on 31st March, 2007 — ₹ 420 per share — Y.E.

14. On 31st May, 2007, H Ltd. learned that certain customer relationships existing as on 1st January, 2007, which met the recognition criteria of an intangible asset as on that date, were not considered during the accounting of business combination for the year ended 31st March, 2007. The fair value of such customer relationships as on 1st January, 2007 was ₹ 3.5 crore (assume that there are no temporary differences associated with customer relations; consequently, there is no impact of income taxes on customer relations)
15. On 31st May, 2007 itself, H Ltd. further learned that due to additional customer relationships being developed during the period 1st January, 2007 to 31st March, 2007, the fair value of such customer relationships 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 information necessary for the accounting of the business combination and that more information is not obtainable.
17. H Ltd. and S Ltd. are not related parties and follow Ind AS for financial reporting. Income tax rate applicable is 30%.

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

(a) What should be the goodwill or bargain purchase gain to be recognised by H Ltd. in its financial statements for the year ended 31st March, 2007. For this purpose, measure non-controlling interest using proportionate share of the fair value of the identifiable 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 accounting treatment of the contingent consideration as on 31st, March, 2007?

D.o.A. step5 step6 step4.

(₹ in cr.)

Solⁿ:- Step1 acquirer   Step2 D.o.A.

H Ltd = 60%   1-1-2007

NCI = 40%

Step3 FV of N.A. acquired.

WN1 calⁿ of D.T.

Particulars	C.A. (F.V.)	T.B. (C.A.)		T.D.	
PPE.	90	40	DTL	50	TTD
Intangible	30	20	DTL	10	TTD
Investment	350	100	DTL	250	
Cont. Liabili					
lawsuit.	0.5	0	DTA	0.5	
inc. taxden.	2	2		0	
			T.T.D.	309.5	
			× T.R.	30%	
			DTL	92.85	

Particulars	amt	amt.
PPE	90	
Intangible	30	
Investment	350	
Inventories	20	
T/R.	20	
Cash	4	
Indemnification of As.	1	
N.C.A. HFS	4	519
– less		
Borrowings	20	
T/P.	28	
Provision	3	
CTL	4	
C.L.	2.5	
DTL (WN-1)	92.85	150.35
	Total	368.65

Step 4 P.C.

Particulars	workings	amount.

Cash		50
Equity sh. ins.	(0.12 × 45% × ½ × ₹10000)	270
FV of C.C.		22
		342

Steps Calⁿ of G/W / G on B.P.

FV of N.A. as on 1-1-2007		368.65
− PC (45%)	342	
FV of invt held.	7.11	
{0.12 × 15% × ₹395}.		
NCI @ PSNA (368.65 × 40%)	147.46	496.57
	G/W	127.92

Steps In the books of H Ltd.

HD Gift. SFS.

1-11-06 Inv in S 6.3.
To C/B 6.3
(0.12 × 15% × 350)

1-1-07 Inv in S 0.81

CFS.

1-1-07
N.A. of S Dr 368.65
G/W Dr 127.92
(342 + 7.11) To Inv 349.11
To NCI 147.46

To P/L 0.81

(7.11 − 6.3)

1-1-07 Inv in S Dr 342

To Equity 270

To CIB 50

To P.J. C.C. 22

31-3-07 P/L Dr 1

To PFCC 1

P/L Dr 1

To P.F.C.C. 1

HARSHIT DWIVEDI

C. Rel. Dr 3.5

To GIW (60%) 2.1

To NCI (40%) 1.4

NO Diff.

if NCI was valued @ FV

then

C Rel. Dr 3.5

To GIW 3.5.

Question # 28	PRACTICE Q 3 OF SM, RTP DEC 21

Company X is engaged in the business of exploration & development of Oil & Gas Blocks. Company X currently holds participating interest (PI) in below mentioned producing Block as follows:

Block Name	Company X	Company Y	Company Z	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 facilities / 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 notice to company Z for withdrawal of their participating right fromon 01.04.20 X1. However, company Z has filed 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 participating 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.

After signing of sale agreement, Operator (company Y) approach government of India for modification in PSC (Production Sharing Contract) i.e. removal of Company Z from PSC of AWM/01 and government has approved this transaction on 30.6.20 X1. Government approval for the modification in PSC is essential given the industry in which the joint-operators operate.

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

HD MENTORING
HARSHIT DWIVEDI
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

Particulars	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 & Liabilities				
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
Liabilities				
Non-Current Liabilities				
Provisions	4,00,000	8,00,000	1,00,000	2,00,000
Other Liabilities	1,50,000	3,00,000	50,000	1,00,000
Total Non-Current Liabilities	5,50,000	11,00,000	1,50,000	3,00,000
Current liabilities				
Financial Liabilities				
Trade Payables	3,00,000	6,00,000	1,00,000	2,00,000
Total Current Liabilities	3,00,000	6,00,000	1,00,000	2,00,000
Total Liabilities	13,50,000	23,00,000	4,25,000	8,50,000

Additional Information:

1. Fair Value of PPE & Development CWIP owned by Company Z as per Market participant approach is ₹ 5,00,000 & ₹ 2,00,000 respectively.
2. Fair Value of all the other assets and liabilities 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 parties 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 liabilities in their books

You need to determine the following:

1. Whether the above acquisition falls under business or asset acquisition as defined under business combination standard Ind AS 103?
2. Determine the acquisition date in the above transaction.
3. Prepare Journal entries for the above -mentioned transaction.
4. Draft the Balance Sheet for Company X based on your analysis in Part 1 above as at acquisition date

Sol^n :-

1) Ind As 103 defines Business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing g & sr. to customers, generate investment income or generate other income from ordinary activities.

For a transaction to qualify for B/C then entity

a) must gain control of assets & S.O.A.

b) S.O.A. must be subtantive in the process that has ability to create output.

In the instant case

X acquired share of producing rights owned by Z for a block named AWM/01 i.e. share in assets and Liabilities and manpower.

Output exists in this transaction as AWM/01 is a producing block.

∴ we can conclude that above arrangement is under B/C.

2) As per IND As 103 Acquisition date is the date on which

a) Acquirer obtains control

b) acquirer assumes All A/L of acquiree

c) Acquirer legally transfers P.C.

In the given case Approval from G.O.I. is substantive approval for obtaining control, transfer of PC & assumption of N.A.

∴ Acquisition date in the above scenario is 30-6-01.

3) A/cing for B/com.

Step1 Acquirer

x Ltd = 33.$\frac{1}{3}$%

for proportionate consolidation

Step2 D.O.A.

30-6-01

Step3 FV of N.A acquired.

WN-1 Calⁿ of D.T.

Particulars	C.A.(FV)	T.B.(C.A.)	T.D.
PPE.	500000	300000	200000 T.
C.W.I.P.	200000	100000	100000 T
		T.T.D.	300000
		X T.R	X30%.
		∴ DTL.	90000

Calⁿ of N.A. acquired.

Particulars.	amount. {1/3 of = {	
PPE @ FV	166667	
R T U asset	6667	
C.WIP. @ FV	66667	
Loan receiv.	16667	
Inventories	10000	
T/R.	33333	
Other C.A.	16667	306668
less.		
Provision	(66667)	
O.L.	(33333)	
T/P.	(66668)	
DTL.	(30000)	196668
	Total	120000

Step 4 P.C.

Cash consideration 100000

Step 5 G/W or G.on.B.P.

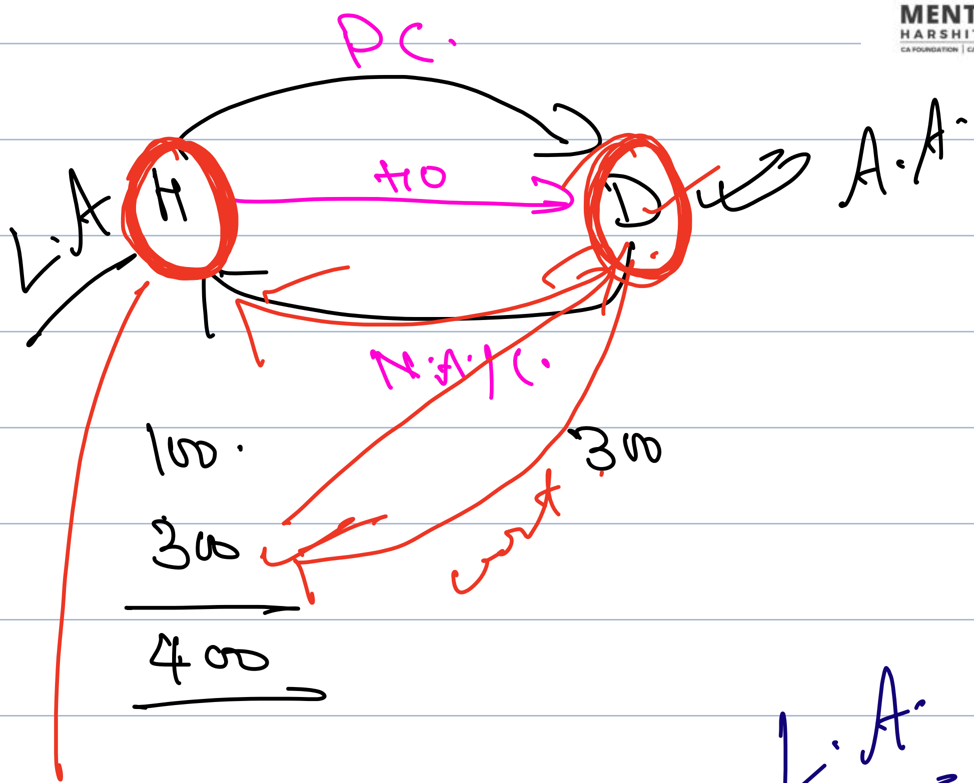
Share of N.A.	120000
− PC.	100000

Gr. on B.P. (∵ distress sale.) 20000

Step 8 B/S. of X

Particulars	₹
PPE (10L + 166667)	11'66667
RTU	206667
C.WIP	166667
loan receivable	66667
Trade receivables	333333
Inventories	210000
Other C.A.	66667
C&C.E. (4L − 1L)	300000
	2516668
ESC	300000
Other equity	300000
OCI	200000
provisions	866667
O. Liabilities	333333
DTL	300000
TIP	666667
	2516668

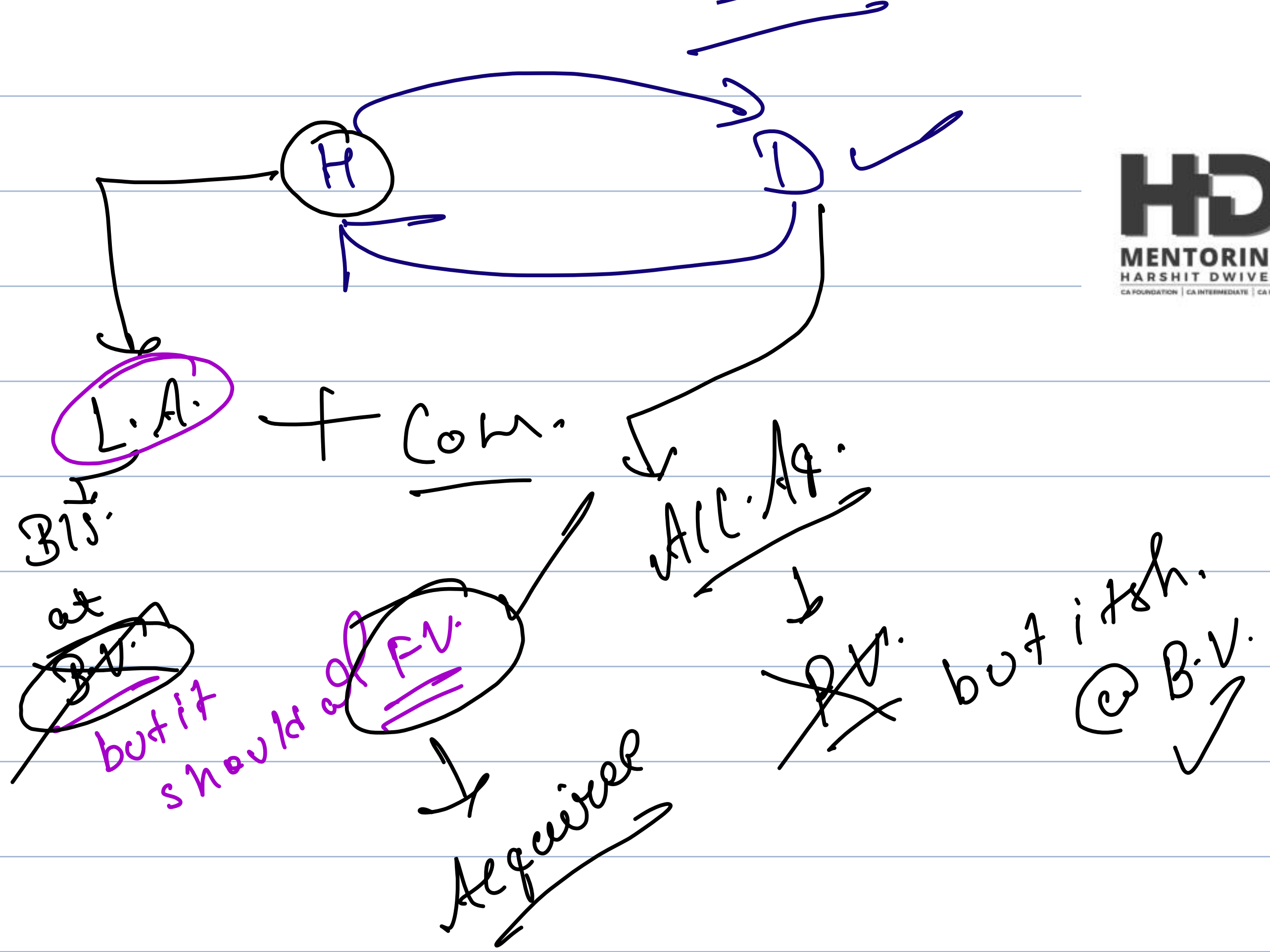
#12 Reverse Acquisition method.



Com. B.U. ~~SFS~~

SFS.
H @B.V.
D @F.V. B.V
P.V.
Der. All @F.V.
B.V.

L.A. F.V.
Pays P.C.
Derec. B.U. @B.V.
Rec F.V.



L.A. + obj. ✓.
Sub ✓

1) meaning :- when small co. takes over the big co. P.C. is paid by small co. to big co.

But.

Big co. has control over the combined entity.

∴ small co. is L.A.

& Big co. is. A.A.

HD to SPC i.e. Issues E.sh @ 1:1

eg ⇒

HD Ltd → Buddy Ltd

100 E sh. — 300 E sh.

Buddy (75%) 300 E sh

400 E sh.

Out of this 400 E. sh. of HD Ltd, 300 E. sh. are for Buddy as it's held due to P.C. i.e. 75% of E. sh.

∴ Buddy have control over combined entity.

∴ L.A. = HD Ltd. (Acquiree)

& A.A. = Buddy Ltd.

2) Alcing :-

1) It will always be done in books of L.A. (HD Ltd)

2) in alcing PC should always flow from alcing acquirer. (Buddy Ltd)

{ but in reality P.C. will flow from L.A., bcoz of substance over form }.

3) Alcing acquiree. → A, L @ F.V.

4) A/c'ing acquirer → A, L, E, OE @ B.V.

3) Types of Q.

Amalgamation

→ A Ltd & B Ltd amalgamated to form AB Ltd / C Ltd.

Or

→ C Ltd / AB Ltd was formed to t/o A Ltd & B Ltd.

Absorption

A Ltd t/o B Ltd.

4) Steps to solve Amalgamation.

Step 1 Identify the acquirer

Step 2 D.O.A.

Step 3 FV of N.A. of a/c'ing acquirer (L.A.) (HD Ltd)

Step 4 P.C.

no. of Equity shares issued to maintain same ratio × F.V. of E. sh of A.A.

(Buddy Ltd)

of step 1

Step 5 g/w or G. on B/P.

Step 6 A/cing in books of L.A.

eg.

H Ltd (A.A.)

D Ltd (A. Aee)

⇒ HD Ltd. L.A.

1) Recognise B/S. of H Ltd. (A.A.) @ B.V.

Assets Dr
To L.
To E.

2) Recognise N.A. of D Ltd (acring acquiree) @ F.V.

NCA Dr
CA Dr
To NCL
To CL
To vendor

(diff = G/W / G on B.P.)

3) vendor Dr
To MOP.
(Discharge P.C.)

4) B/S.

Question # 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 respectively. C Ltd was formed to takeover A Ltd and B Ltd, necessary shares were issued.

Prepare Balance sheet of C Ltd.

Solⁿ :- Step 1 Identify the acquirer

%

$$A\ Ltd = \frac{\text{no. of E.S. (A)} \times \text{FV (A)}}{\text{F.V. of C}} = \frac{30000 \times 20}{10} = 60000 = 37.5\%$$

$$B\ Ltd = \frac{\text{no. of E.sh (B)} \times \text{FV (B)}}{\text{FV of C}} = \frac{40000 \times 25}{10} = 100000 = 62.5\%$$

160000 sh. 100%

∴ A/Cing acquerer = B Ltd → B/S @ B.V.

A/Cing acquoree = A Ltd. → N.A. @ FV

Legal acquirer = C Ltd

Step2 DOA ⇒ N.A.

Step3 FV of N.A. of A Ltd.

NCA	500000
CA	400000
− C.L.	(400000)
	500000

Step4 PC

Req. to be maintained.

A Ltd.	60000		?? ⇒ 24000 $\left(\frac{40000}{100000} \times 60000\right)$
B Ltd	100000	⟶	40000

∴ PC = no. of E.sh. issued by A Ltd. as per Ratio in step1 × FV of B Ltd.

= 24000 E.sh. × 25

= ₹ 600000

Step5 g/w or Cr. on. B.P.

N.A. of A	500000
− PC	600000
Goodwill	100000

Step6 In the books of C Ltd.

1) B/S of B @ B.V.

NCA Dr 400000

C.A. Dr 300000

To C.L. 50000

To O.E. 250000

To E 400000

2) N.A. of A @ F.V.

NCA Dr 500000

C.A Dr 400000

G/W Dr 100000

To C.L. 400000

To Vendor 600000

3) Discharge P.C.

Vendor Dr 600000

To Equity 600000

4) B/S

NCA (400000 + 500000)	900000
goodwill	100000
CA. (300000 + 400000)	700000
	1700000
Equity (400000 + 600000)	1000000
O.E.	250000
C.L. (50000 + 400000)	450000
	1700000

Question # 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 respectively.

Fair value of Equity Shares of A ltd is ₹ 15

Fair value of Equity Shares of B ltd is ₹ 12

Solⁿ:- Step1 Identify the acquirer

			Stake %
A Ltd =	$70000 \times \frac{3}{2}$ =	105000 sh	51.21%
B Ltd =	$50000 \times \frac{2}{1}$ =	100000 sh	48.79%
		205000 sh	100%

Step2 DoA → N.A.

Step3 NA of B

Non C.A.	1900000
C.A.	600000
− Liability	(1300000)
	1200000

Step4 P.C. from A to B

A Ltd 105000 ⟶ 70000

B Ltd 100000 ?? 66667. $\left(\frac{70000}{105000} \times 100000\right)$

$\therefore$ P.C. = 66667 sh. × ₹ 15

= 1000000

Step 5 G/W or Gr. on Gr on B.P.

N.A.	1200000
− PC	1000000
Gr. on. B.P. (C.R.)	200000

Step 6 In the books of C Ltd.

1) NCA Dr 1500000

CA Dr 500000

To C.L. 1000000

To O.E. 300000

To E. 700000

(Recognise B/S of A @ BV)

2) NCA Dr 1900000

C.A. Dr 600000

To C.L. 1300000

To C.R. 200000

To Vendor 1000000

(Recognise N.A. of B @ FV)

3) Vendor Dr 1000000

To Equity 1000000

(Discharge of P.C)

4) B/S.

N.C.A.	(15L + 19L)	3400000
C.A.	(5L + 6L)	1100000
		4500000
ESC	(7L + 10L)	1700000
O.E.	(3L + 2L)	500000
CL.	(10L + 13L)	2300000
		4500000

Question # 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.

Sol^n

1) In Q.29 & 30 FV of E. sh. was there but in this Q. FV of E.sh. is not given

∴ instead of f.v. we need to work with I.V.

2) I.V. = $\frac{\text{Net Assets (value of business)}}{\text{no. of E.sh.}}$

3) Cal^n of I.V.

	A	B
FV of goodwill	500000	300000
FV of PPE	2200000	2000000
C.A.	600000	400000
− C.L.	(1000000)	(700000)
a) Value of business	2300000	2000000
b) no. of eq.sh.	100000	80000
I.V. $\left(\frac{a}{b}\right)$	₹23	₹25

Step1 acquirer

				Stake
A Ltd	=	$100000 \times \frac{₹23}{10}$	= 230000 sh.	53.5%
B Ltd	=	$80000 \times \frac{₹25}{10}$	= 200000 sh.	46.5%
			430000 sh.	

Step2 DOA → N.A.

Step3 N.A. of B.

Non C.A. 2000000

Step 4 P.C.

A 230000 → 100000

C.A. 4000000 B 2000000 → ??
86956

− CL (700000)

1700000

∴ PC = 86956 × ₹23

= ₹2000000

Step 5 g/w / Gr on B.P.

N.A. of B 1700000

− PC 2000000

g/w 300000

Step 6 In the books of C Ltd.

1) B/S of A Ltd @ B.V.

Non C.A Dr 2000000

C.A. Dr 600000

To C.L. 1000000

To O.E. 600000

To Equity 1000000

2) N.A. of B Ltd @ FV

G/W Dr 300000

Non C.A. Dr 2000000

3) P.C.

Vendor Dr 20L

To Equity 20L

4) B/S.

PPE	4000000
G/W	300000
C.A.	1000000

C.A. Dr 400000 | 5300000

To C.L. 700000 | Equity 3000000

To Vendor 2000000 | O.F. 600000

Liability 1700000

5300000

Question # 33	ILL 38 OF ICAI SM

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 existing 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 Liabilities		
Equity share capital of ₹10 each	6,000	7,000
Other equity	3,050	3,000
Non-Current Liabilities		
Financial Liabilities – Borrowings	3,000	4,000
Current Liabilities		
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 calculation of PC and draft Balance Sheet of AB0 Ltd, assuming B0 is larger entity and, and their management will take control of the entity

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

Soln :- Working notes.

i) since fair value is not given

∴ we need to Calculate I.V.

ii) Cal^n of I.V.

	Ao	Bo
a) Val. of business	11000	14000
b) no. of eq. sh.	600	700
I.V. (a/b)	18.33	20

Step1 acquirer

			%
Ao Ltd	$600 \times \frac{18.33}{10}$	= 1100 sh.	44
Bo Ltd.	$700 \times \frac{20}{10}$	= 1400 sh	56
		2500 sh.	100%

Step2 DoA. → 1-1-2002

Step3. N.A. of Ao Ltd.

PPE	9500
Investments.	1050
Inventory	1300
T/R.	1800
Cash	450
− Non CL	(3000)
− T/P.	(1000)
	10100

Step4 PC from Bo to Ao

Bo 1400 → 700 sh

Ao 1100 → ??

550

∴ PC = 550 sh × ₹ 20

= ₹ 11000

Step 5 g/w | g. on. B.P.

N.A.	10100
PC	11000
g/w	900

Step 6 In the books of ABC

Non C.A.

PPE (9500 + 7500)	17000
goodwill	900
financial Assets - Inv.	1900

Current Assets.

Inventory (1300 + 2750)	4050
T/R.	5800
C & CE	850
	30500

Equity.

ESC (7000 + 5500)	12500
O.E. (3000 + 5500)	8500

NCL

P.L. (Borrowings)	7000

C.L.

T/P.	2500

30500

HD MENTORING
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Absorption :-

1) meaning

small co. takes over big co.

↓ L.A. & Alcing Acquere

↓ A.A. (∵ it has control over combined entity.)

2) Rules for absorption

1) alcing in the books of legal acquirer.
2) P.C. should flow from alcing acquirer for alcing purpose.
3) BW of alcing acquirer @ B.V. &.
4) N.A. of. leg. Acq. @ F.V.

3) alcing. in books of L.A.

Amal.

A + B = C

A. Acqreer. → B.V.

A.Acc. → FV.

C → L.A.

Derecog. → Derecog.

Ab.

Derecog. → Yes.

A → B

A. Acqree & L.A.

B → A.A. Yes.

No

F.V.

BV

New Bal.

Derecog. B/S of A. @ B.V.
&
Recog. N.A. of A. @ F.V.

1) Derecognise B/S of L.A.

Equity Dr
O.E. Dr
Liability Dr
To Non C.A.
To C.A.

2) Recognise B/S of A.A. at B.V.

Assets Dr
To Liability
To Equity
To O.E.

3) Recognise N.A. of Alling acquee @ F.V. along with goodwill or gain on B.P.

Assets Dr
To Liab.
To Vendor
(Diff = g/w / g.o.BP)

4) Discharge of P.C.

Vendor Dr
To MoP.

5) B/S.

4) steps to solve absorption
↓
Same as amalgamation.

Question # 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 ratio 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 respectively
Prepare Balance Sheet of A Ltd

Solⁿ :- Step1 Acquirer %

A Ltd = 20000 35%

B Ltd = $15000 \times \frac{5}{2}$ = 37500 65%

57500 100

∴ L.A. = A Ltd

A.A. = B Ltd.

Step2 ⇒ D.O.A. ⇒ N.A.

Step3 N.A. of A Ltd.

NCA	600000
C.A.	300000
− CL.	(500000)
	400000

Step4 P.C.

A. 20000 → ?? ⇒ 8000

B 37500 → 15000

∴ PC = 8000 sh × ₹ 25

= 200000

Step5 G/W or gain on B/P.

N.A.	400000
− PC	200000

G.on.B.P. (C.R.) 200000

Step 6 In the books of A Ltd.

1) Derecognise B/S of A Ltd.

Equity	Dr	200000	
O.E.	Dr	100000	
C.L.	Dr	500000	
To Non C.A.			500000
To C.A.			300000

2) Recognise B/S of B @ B.V.

Non C.A.	Dr	700000	
C.A.	Dr	400000	
To C.L.			450000
To O.E.			500000
To Equity.			150000

3) Recognise N.A. @ FV of A.

Non C.A.	Dr	600000	
C.A.	Dr	300000	
To C.L.			500000
To C.R.			200000
To Vendor			200000

4) Discharge P.C.

Vendor Dr 200000

To ESC 80000

To SP. 120000

5) Balance sheet.

Non C.A.	1300000
C.A.	700000
	2000000
ESC	230000
O.E (5L + 22 + 1.22.)	820000
CL	950000
	2000000

Question # 34 **EXAMPLE 9 OF SM , Q. 2 OF SM**

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 Accounting Acquiree	B Ltd Legal Subsidiary Accounting 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

Solⁿ:- Step1 Acquirer %

A Ltd. 100 sh. 40

B Ltd. 60 sh × 2.5 = 150 sh 60

250 sh 100 %

Step2 D.O.A. 30-9-2001

Step3 N.A. of A Ltd.

Non CA	1500
CA.	500
− C.L.	(700)
	1300

Step4 P.C.

B 150 ⟶ 60 sh

A. 100 ⟶ ??

40 sh.

∴ PC = 40 sh. × ₹ 40

= 1600

↳ ESC = 400

↳ SP. = 1200

Step5 g/w or CR on B.P.

N.A.	1300
PC	1600
g/w.	300

Step6 Balance Sheet.

Non C.A. (3000 + 1500)	4500
Goodwill	300
C.A.	1200
	6000
ESC (600 + 400)	1000

O.E. (1400 + 1200) 2600

Li. 2400

6000

B.Com. (Merger)

- in acquisition
  - PC is paid.
    - LA = AA.
    - LA ≠ AA.
  - PC is not paid.
    - AA = entity with more Board members.
- in nature of common control

#13 Common Control Transactions (CCT)

1) A type of B/C where acquiree company is ultimately controlled by same entity before and after B/Com.

eg →

P

- S1 (100%)
- S2 (100%)

if S1 t/o S2.
then S1 before B/C is cont. by P.
and S1 after B/C is cont by P.

→ It is merely a Corporate Restructuring (not a B/Com.)

→ Here acquirer Co. is known as → Transferee Co.
, acquiree Co. is known as → Transferor Co.

Examples of CCT

1) merger of subsidiaries
2) Parent t/o subsidiaries
3) spin off.

2) As per Appendix C of Ind AS 103, method of accing applied for CCT is Pooling of int. method

3) Steps to solve.

Step1 Identify the transferee Co. (A'er)
Step2 Determine DoA.
Step3 Calⁿ of N.A. of Transferor

All Assets @ B.V. xxx
All Liabilities @ B.V. (xxx)
All RSs @ B.V. (xxx)
N.A. (S.C.) xxx

S.C. ✓ | A.
RSS
L

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Step4 Calculation of P.C
↳ same as earlier

Step5 NCI → Not applicable.
Step6 gain or loss on Restructuring

N.A. of transferor.	xxx
− PC.	xxx
	xxx

PC > N.A. → loss. → C.R.

PC < N.A. → gain → C.R.

Step7 Journal on DoA by T'ee co.

Assets T/o of Tran. over Co. Dr (S.-3)

C.R.   Dr (S-6)

To Liab. T/O of Tr. ror Co. (S-3)
To RSS T/O of Tr. Co. (S-3)
To C.R. (S-6)
To MOP

Step 8 Prep. of B/S as on DoA of Tee
T/O All A & L. of both Co. @ B.V.
take equity & O.E. of Tr.ee Co. @ B.V. ± impact of Journal in Step 7.

Note :- → if P.C. is not given then assume N.A. acquired as per Step 3 = P.C.
entire P.C. is satisfied by issue of E.sh. @ Par.

→ if there are 2 Transferor Co. then distribute P.C. between transferor co. in the ratio of N.A.

Question # 35 ILL 38 OF ICAI SM

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 existing 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 Liabilities		
Equity share capital of ₹10 each	6,000	7,000
Other equity	3,050	3,000
Non-Current Liabilities		
Financial Liabilities – Borrowings	3,000	4,000
Current Liabilities		
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 calculation of PC and draft Balance Sheet of AB0 Ltd, assuming ~~B0 is larger entity and, and their management will take control of the entity~~ it is CCT

Assuming that both the entities are under common control

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

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Sol^n :-

Step 1 Acquirer (Transferee Co.)

AB0 Ltd.

Step 2 DoA. 1-1-02

Step 3 N.A. acquired

S.C. of A.O.	6000
S.C. of B.O.	7000
	13000

Step 4 Calc^n of P.C.

∵ PC is not given

$\therefore$ N.A. = PC.

Step 5 gain or loss on CCT.

$\because$ NA = P.C.

$\therefore$ No C.R.

Step 6 Balancesheet.

NCA.	
PPE	16000
F.A.	
investments	1900
C.A.	
inventory	4000
T/R.	5800
C & CE	850
	28250
Equity	
ESC (6000 + 7000)	13000
O.E.	6050
Non C.L.	
F.L.	
L.T.B.	7000
C.L.	

TIP.

2500

28250

Question # 35 (MTP MAY 23, DEC 21)

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 existing 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 Liabilities		
Equity share capital of ₹10 each	1,20,00,000	1,40,00,000
Other equity	61,00,000	54,00,000
Non-Current Liabilities		
Financial Liabilities –		
Borrowings (12 % debentures)	60,00,000	80,00,000
Current Liabilities		
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
Profit & Loss	20,00,000	10,00,000
Investment allowance reserve	10,00,000	2,00,000
Export profit 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 consideration and advice discharge thereof by preparing a note and draft the Balance Sheet of Sun moon Limited assuming that Sun Limited and Moon Limited are not under common control and management of larger entity out of Sun Limited and Moon Limited will take over the control of the entity 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

SOLUTION

1. Determination of larger entity out of Sun Ltd. and Moon Ltd.

The management of a larger entity (out of Sun Limited and Moon Limited) will take the control of the Sunmoon Ltd. Since, here Sun Ltd. and Moon Ltd. are not under common control and hence accounting prescribed under Ind AS 103 for business combination will be applied. As per the accounting guidance provided in

Ind AS 103, sometimes the legal acquirer may not be the accounting acquirer. In the given scenario although Sunmoon Ltd. is issuing the shares but managementof a larger entity out of Sun Ltd. and Moon Ltd. will have control of Sunmoon Ltd.

This can be determined by the following table: (Rs.)

		Sun Ltd.	Moon Ltd.
Fair Value	A	2,20,00,000	2,80,00,000
Value per share	B	10	10
Number of shares	A/B = C	22,00,000	28,00,000
Total number of shares in Sunmoon Ltd. will be 50,00,000 shares (22,00,000 + 28,00,000)			
Thus, % held by each company in Sunmoon Ltd.	[(C/50,00,000) x 100]	44%	56%

Note: It is a case of Reverse Acquisition. Since post-merger, Moon Ltd. is biggerin size which is a clear indicator that Moon Ltd. will have control of Sunmoon Ltd.and will be considered as an accounting acquirer. Accordingly, Moon Ltd.'s assets and liabilities will be recorded at historical cost in the merged financial statements.

2. Computation of Purchase Consideration and the manner in which it will bedischarged

Number of shares to be issued by Moon Ltd. to Sun Ltd. to maintain the same percentage i.e. 56%

Since 14,00,000 shares of Moon Ltd. (given in the balance sheet) represent 56%,the total number of shares would be 25,00,000 shares (14,00,000 shares / 56%).

This implies Moon Ltd. would need to issue 11,00,000 shares (25,00,000 – 14,00,000) to Sun Ltd.

Purchase Consideration = 11,00,000 shares x Rs. 20 per share (ie. 2,80,00,000 /14,00,000 shares) = Rs. 2,20,00,000.

3. Balance Sheet of Sunmoon Ltd. as on 1.4.2021

ASSETS	Note No.	Amount Rs.
Non-current assets		
Property, Plant and Equipment(1,90,00,000 + 1,50,00,000)		3,40,00,000
Goodwill (Refer Working Note)		18,00,000
Financial assets		
Investment (21,00,000 + 11,00,000)		32,00,000
Current assets		
Inventory (26,00,000 + 55,00,000)		81,00,000
Financial assets		
Trade receivables (36,00,000 + 80,00,000)		1,16,00,000
Cash and Cash equivalent (9,00,000 + 8,00,000)		17,00,000
		6,04,00,000
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs. 10 each)	1	2,50,00,000
Other equity	2	1,64,00,000
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings (12% Debentures) (60,00,000 + 80,00,000)	3	1,40,00,000
Current liabilities		
Financial liabilities		
Trade payables (20,00,000 + 30,00,000)		50,00,000
		6,04,00,000

Notes to Accounts

		(Rs.)	(Rs.)
1.	Share Capital		
	25,00,000 Equity Shares of Rs. 10 each (14,00,000 to Moon Ltd. and 11,00,000 as computed above, to Sun Ltd.)		2,50,00,000
2.	Other Equity		
	General reserve of Moon Ltd.	40,00,000	
	Profit and loss of Moon Ltd.	10,00,000	
	Export profit reserve of Moon Ltd.	2,00,000	
	Investment allowance reserve of Moon Ltd.	2,00,000	
	Security premium (11,00,000 shares x Rs. 10)	1,10,00,000	1,64,00,000
3.	Long Term Borrowings		
	12% Debentures		1,40,00,000

Working Note:

Computation of Goodwill

Assets:	Rs.
Property, plant and equipment	1,90,00,000
Investment	21,00,000
Inventory	26,00,000
Trade receivables	36,00,000
Cash & cash equivalent	9,00,000
Total assets	2,82,00,000
Less: Liabilities:	
Borrowings (12% Debentures)	(60,00,000)
Trade payables	(20,00,000)
Net assets A	2,02,00,000
Purchase consideration B	2,20,00,000
Goodwill (B-A)	18,00,000

Question # 37 **RTP NOV 18**

Smart Technologies Inc. is a Company incorporated in India in 1998 having business in the field of development and installation of softwares, trading of computer peripherals and other IT related equipment and provision of cloud computing services along with other services incidental thereto. It is one of the leading brands in India.

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

Company Name	Principle Activity
Cloudustries India Private Limited	Provision of cloud computing services.
MicroFly India Private Limited	Trading of computer peripherals like mouse, keyboard, printer etc.

Smart Technologies started preparing its financial statements based on Ind AS from 1st April, 2018 on voluntary basis. The Microfly 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 meeting 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 functional 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 Liabilities	(24.80)
→ Financial Liabilities	
• Borrowings	2.80
Current Liabilities	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 consideration payable by MicroFly to Cloudustries was fixed at ₹18.00 crores payable in cash and that MicroFly take over all the assets and liabilities of Cloudustries.

Present the statement showing the calculation of assets / liabilities taken over as per Ind AS. Also mention the accounting of difference between consideration and assets / liabilities taken over.

Soln :- (₹ in cr.)

1) Before merger of cloudstries India pvt Ltd. and Microfly are Subsidiaries of smart technologies pvt Ltd.

∴ Before and After merger control vests with Smart technologies pvt Ltd and as the control is not transitory, proposed merger will fall under category of CCT as per appendix C of IND AS 103.

2) Statement of N.A

PPE	15	
TIR	10	
Cash	10	
OCA.	8	43
− less		
Borrowings	2.80	
C.L.	20	
Reserve	(24.80)	2
Total		45

3) P.C. = 18 Cr.

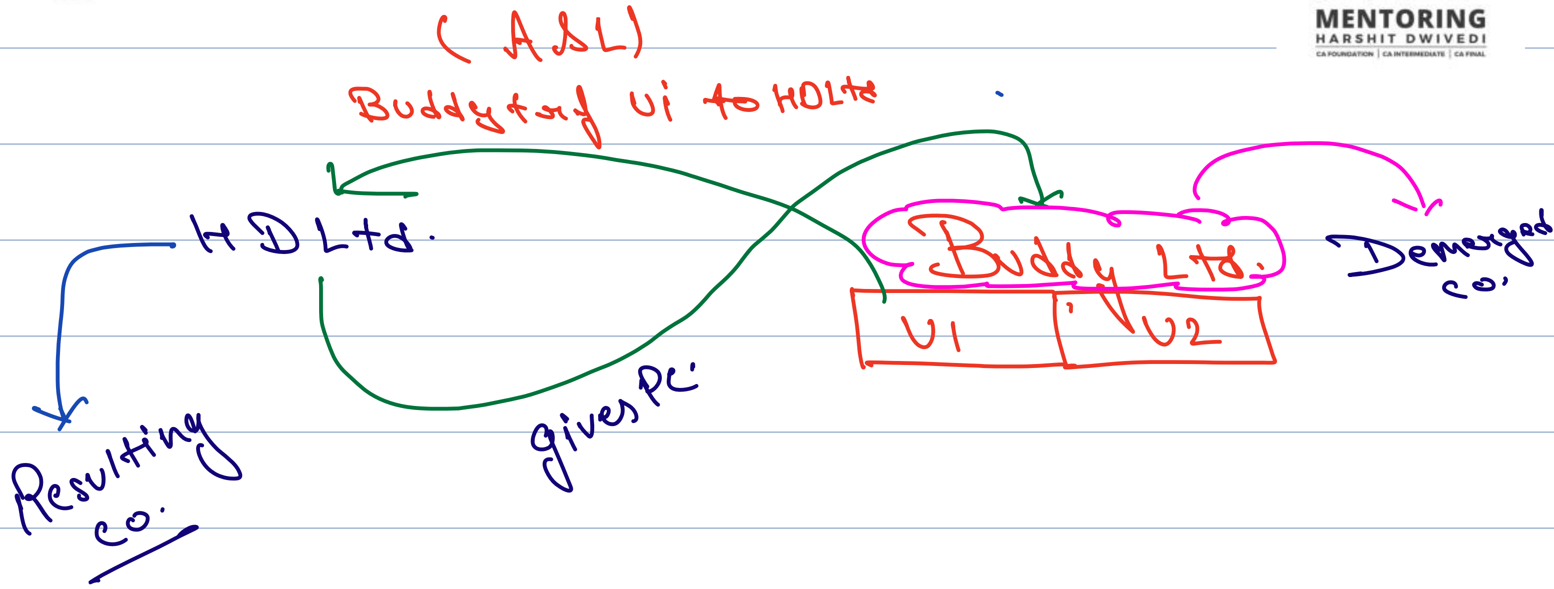
4) Diff b/w PC & N.A.

N.A.	45
PC	18
C.R.	27

14 & 15 Demerger or Spinoff.

1) Meaning :- it is an arrangement where some part (unit/Division) of a Company (Demergerd

Co.) to another company (Resulting Co.)



2) Types of Demerger / spinoff.

Demerger in the nature of CCT

↓

Demerger

↓

1) P.C. received from Resulting Co. is distributed to the shareholders of Demerged Co.

Demerger in the nature of acquisition

↓

Sale of Division

↓

1) P.C. received from Resulting Co. is kept by demerged Co. as Investment in E.Sh.

of Resulting co.

3) Method of acing

Demerger | Sale of Division

Demerger

if

→ HD Ltd is a new co.

→ Buddy Ltd has a shareholder say Mr Harshit who holds >50% of E.Sh.

→ Mr Harshit has a control over Buddy Ltd. (U1)

→ Hence Mr. Harshit has control of HD Ltd. & also had control of U1 of Buddy Ltd.

Since PC is given to shareholder of Buddy Ltd.

Else → $\boxed{\text{Acquisition method}}$ ← Else

Sale of Division

if

→ HD Ltd is a new co.

→ In P.C., HD Ltd issue E.shares to Buddy Ltd

∴ entire E.Share of HD Ltd are now held by Buddy Ltd.

∴ HD Ltd will become unit of Buddy Ltd.

∴ U1 was controlled by Buddy Ltd before and after sale of Division.

→ ∴ above situation is of CCT.

∴ POI will apply.

→ Harshit > 50% E.sh of Buddy Ltd
& Harshit > 50% E.sh of HD Ltd.

∴ Above situation is of
CCT
∴ P.O.I method will apply.

eg :→

	Harshit	Harsh.	Aryan.		
	12	6	2	20 → Buddy.	Common control
1:2	6	3	1	→ HD Ltd	

Ist check → PC goes to whom
IInd check → Is it a CCT

CCT | Am.

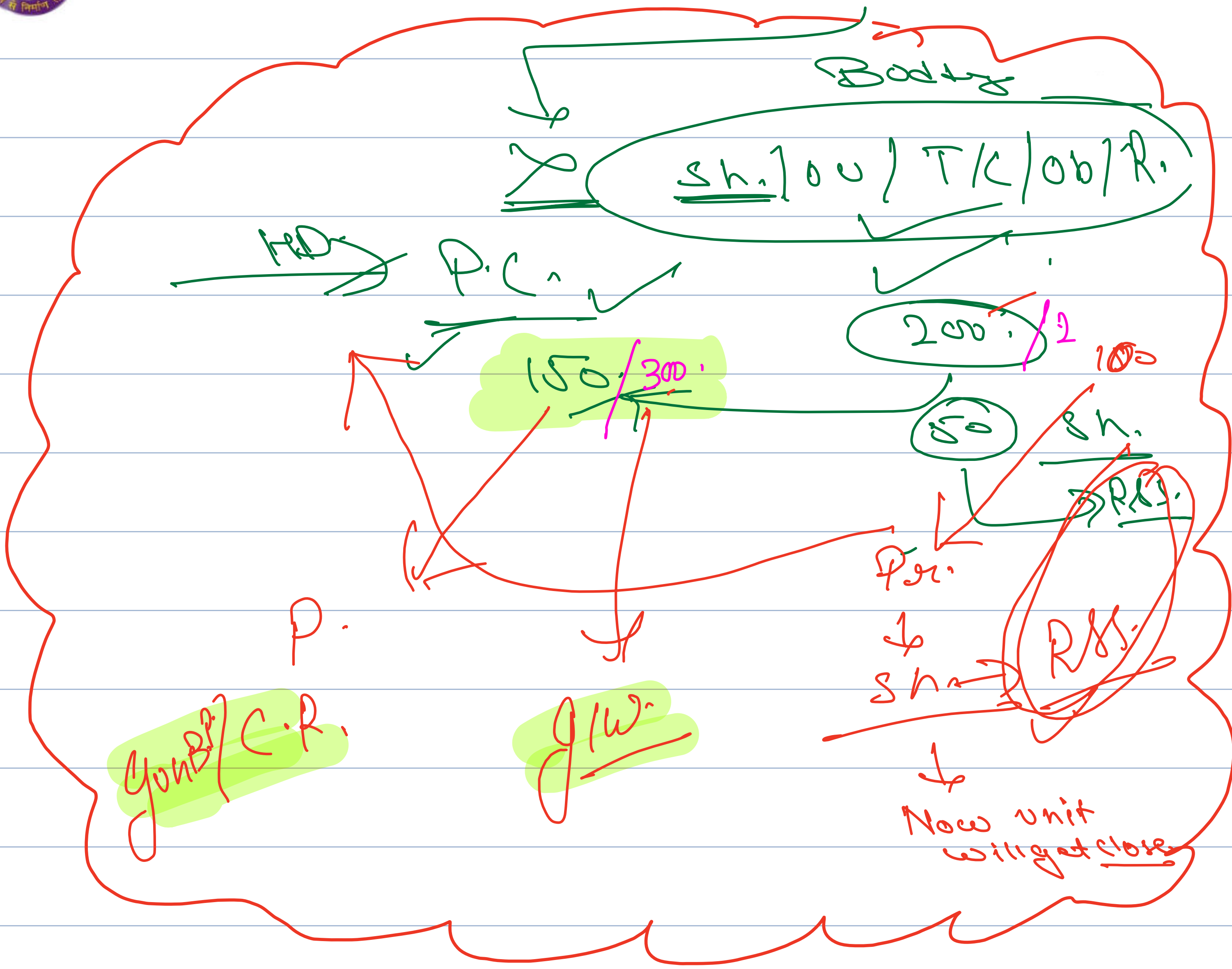
4) In the books of Demerged co.

a) Close Assets, Liabilities of UI

Liability Dr xxx @ B.V.
Resulting co. Dr xx → P.C. Due.
To Assets xxx @ B.V.

* In case of spinoff S.C. & R&S are not t/f nor t/o by resulting co. ∵ it does not belong to UI but belongs to entire co.

* Diff. in above entry → P.O.I. → C.R.
→ A.M. → R.S.S.



b) Receive P.C.

E.sh. in Resulting Co. Dr	xx	
To Resulting Co.		xx

c) Treatment of P.C.

→ Demerger

→ S.O.D.

A.M.

C.R. / RSS Dr xx
To E.sh in Resulting co. xx

POI

No entry.
∵ E.sh. in Resulting Co. will appear in B/s as

Inv. in E.sh. of Resulting co.

5) In the books of Resulting Co.

a) Takeover entry

Assets Dr xxx
To Liability. xxx
To members of Demerged co. xx
(Demerger)
Or
Demerged co. (S.O.D.) xx

if POI → @ B.V.
if A.M. → @ FV

→ same as above.

Diff. in above J.E.
↳ if POI → then C.R.
↳ if A.M → then G/W / G on B.P.

B) Discharge of P.C.

Members of Dem. Co. Dr xxx → if Demerge
or Demerged Co. Dr xxx → if SOD.
To ESC xxx

Question # 38 (ILL 36 OF SM , SIMILAR TO MAY 18)

Enterprise Ltd has two divisions Laptops and Mobiles.

	Laptop	Mobile	Total
Fixed Assets at cost	250	500	750
Less : Depreciation	(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

75

Mobile Division was sold for ₹25 crore to Turnaround Ltd a new company, who allotted 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 after demerger

(c) Prepare balance sheet of Turnaround Ltd

Soln :- Notes

1) PC paid to shareholders hence it is Demerger.

2) It is a CCT ∵ before and after Demerger control remains with shareholder holding 52%.

3) ∵ it is a CCT, shares will be issued at par and pooling of Interest method will apply.

Step1 Acquirer → Turn around Ltd.
Step2 DoA → N.A.
Step3 N.A. acquired of Mobile Division

Non C.A.	100
C.A	500
loan	(300)
C.L.	(400)
	(100)

Step4 calc of P.C.
P.C. = 1 Cr E.Sh × ₹ 10 = 10 Cr.

Step5 calc of C.R.

N.A	(100)
P C	(10)
C.R.	(110)

Step6 In the books of Dem. Co. (enterp. Ltd)

a) Journals.

1) loan Dr 300
C.L. Dr 400
T. Ltd Dr 10
To Non C.A. 100
To C.A. 500
To C.R. 110 (B/f)

2) E.Sh in T. Dr 10
To T. Ltd. 10

3) Cap. R. Dr 10
To E.sh in Res. Co. 10

b) Balance sheet (Post Merger)

Assets.

Non C.A.	25
C.A.	200
	225

Equity & Liabilities.

Equity	25
O.E.	175.
Existing 75	
profit on D.M 110	
Div. as per 105 (10)	
C.L.	25
	225

Step 7 In the books of Resulting Co. (Turnaround)

a) HD gift (Journal)

1) Non CA Dr 100
C.A Dr 500
C.R. Dr 110
To loan 300
To C.L. 400
To mem of E. Ltd 10

b) B/S.

Non C.A.	100
C.A.	500
	600
Equity	10
O.E	(110)
NCL (loan)	300
CL	400

2) memb. of E Ltd Dr 10
To ESC 10

600

Question # 39 (ILL 37 OF SM)

Maxi Mini Ltd has two division Maxi and Mini. The draft information of Assets and liabilities as at 31.10.2002 was as under.

	~~Laptop~~ Maxi	~~Mobile~~ Mini	Total
Fixed Assets at cost	600	300	900
Less : Depreciation	(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 liabilities of Mini division

Accordingly, Mini Ltd. was incorporated takeover at Balance Sheet figures the assets and liabilities 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 settlement of consideration.

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 relation 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 figures.
b. The directors of the 2 companies ask you to find out the net asset value of equity shares pre and post demerger
c. Comment on the impact of demerger on "shareholders wealth"

Sol^n Notes

1) PC is paid to members of Demerged Co.

2) Since there is no same control before and after Demerger. ∴ Acquisition method to be followed.

Step 1 acquirer → Mini Ltd.

Step 2 DOA → 1 - Nov 2002

Step3 N.A.

Non C.A.	200
C A	300
	500
− loan	(100)
− C.L.	(100)
	300

Step4 P.C.

5 Sh × 10

⇒ 50 Cr.

Step5 G/W / G on B.P.

N.A.	300
PC	50
C.R.	250

Step6 In the books of MM Ltd.

A) Journal

1) loan Dr 100
   CL Dr 100
   mini Ltd Dr 50 → P.C.
   R&S. Dr 250 → A.M. (loss)
   To Non C.A. 200
   To C.A. 300

2) E sh. in mini Dr 50
   To mini Ltd 50

3) R/S Dr 50
   To E.sh in mini Ltd 50

b) Balance sheet

	Pre	Post.
Non C.A.	300	100
C.A.	700	400
	1000	500
Equity	50	50

O.E.	650	350

Existing 650
− loss. (250)
− Div. (50)

Non C.L. (loan)	100	—
C.L.	200	100
	1000	500

Step 7 In the Books of Mini Ltd.

1) Non C A Dr 200
C.A. Dr 300
To loan 100
To C.L. 100
To mem of mm 50
To C.R. 250

2) mem. of MM Dr 50
To ESC 50

3) B/S.

Non C.A.	200
C.A.	300
	500
ESC	50
O.E.	250
NCL (loan)	100
CL	100
	500

c) calⁿ of SH. wealth.

	M M Pre	M M Post	mini
Equity	50	50	50

O.F.	650	350	250
a) SH.f.	700	400	300.
b) no.of eq.sh.	5	8	5
I.V. $\left(\frac{a}{b}\right)$	₹140	₹80	₹60

∴ No impact on wealth of SH But Sh. would prefer demerger bcoz Risk is diversified.

Question # 40

The following is the draft 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	600
Financial Assets	
→ Investments	1000
Current Assets	
→ Other Current Assets	3000
	4600
EQUITY AND LIABILITIES	
→ Equity Share Capital of	250
→ Other Equity	1350
Non-Current Liabilities	
Financial Liabilities	
- Borrowings	1000
- Current Liabilities	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 entire amount being financed by shareholders
2. New Project Division : To which remaining fixed asset, current assets and current liabilities related The following scheme of reconstruction 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 respectively
   (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 consideration to Diverse Ltd. Sunrise limited issued 15% Debentures of ₹500 crore subscribed by Diverse ltd (convertible into equity shares after 2 years).
   (d) Diverse Ltd made a bonus issue in the ratio 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 after the scheme of arrangement.

Soln :- Notes.

1) Both are Demerger but

→ In case of Khazana
↳ Acq. method
↳ PC to members.

→ In case of Sunrise
↳ CCT ∴ PoI.
↳ PC to Diverse Ltd.

Step 1 acquirer — a) Khazana Ltd. b) Sunrise Ltd.

Step 2 → DoA → N.A.

Step 3 N.A.

	Est.	N.P.
PPE	-	570
C.A.	—	1500
Inv.	800	—
C.L.	—	(1700)
loan	(600)	(400)
C.C.	—	(700)
	200	(730)

Step 4 P.C.

	Estd	N.P.
E.Sh. of ₹10	200	10

Step 5 GW / g on B.P.

	Est	N.P.
N.A.	200	(730)
PC	(200)	(10)
C.R.	0	(740)

would have been gw/G on B.P. ∵ A.Method

PoI

Step 6 In the books of Diverse Ltd.

A.M.

1) RSS Dr 200
To Inv. 200
(↓ in value of inv.) by ₹ 800

2) loan 600
Khajana 200 → P.C.
To Inv 800

3) E.sh in Khajana 200
To Khajana 200

4) RSS Dr 200
To E.sh. in Kh. 200

PoI

5) Borr. Dr 400
C.L. Dr 1700
Sunrise Dr 10
To C.A. 1500
To PPE 570
To C.R. 40
(for Diverse c.c. is a C.L.)

6) E.sh. in Sunrise 10
To Sunrise 10

7) Inv. in 15% Deb. 500
To C.A. 500
(Bank)

8) RSS. Dr 250
To FSC 250
(B.I.A.)

Step 7. In the books of R.E.

Khajana

a) Inv Dr 800
To loan 600
To mem. 200

Sunrise.

a) PPE Dr 570
C.A Dr 1500
C.R. Dr 740

b) mem Dr 200
To Esc 200

To Boven. 400
To C.L. 1700
To Cap.Com. 700
To Div. 10

b) Div. Dr 10
To Esc 10

Balancesheet

	Diverse Pre	Diverse Post	Khagana	Sunrise
PPE	600	30	–	570
Investments.	1000	–	800	–
Inv. in Es of s.	–	10	–	–
Inv. in Deb. of s.	–	500	–	–
C.A. (WN-2)	3000	1000	–	2000
	4600	1540	800	2570
Equity	250	500	200	10
FI as - Deb	–	–	–	500
O.E. (WN1)	1350	740		(740)
NCL (loan)	1000	–	600	400
CL.	2000	300	–	1700
Cap. Commit.	–	–	–	700

4600 1540 800 2570

WN-1 O.E. of Div. (Post)

op. bal.	1350
- Inv.	(200)
- Div.	(200)
- pr. on s.op.	40
- B.I.	(250)
	740

WN-2 C.A.

	Div.		Sunrise
C.A.	3000	T/O from Div.	1500
t/o by sunri	(1500)	issue of Deb.	500
Purch. Deb	(500)		2000
	1000		

⟹ Plz read theory Q. from textbook

⟹ Plz read First time adaption Ind AS 101

———— x ————

HD Charts.

Ist check → PC goes to whom

IInd check → Is it a CCT

CCT

D.M.

① Liabili Dr BV
R.C. Dr PC
To Asset BV
} Diff = C.R.

② ES
To R.C.

③ C.R
To ES

if shares are given to members. else No entry

Res. Co.

Asset → B.V
To Liab. → B.V.
To DM/ mem b of D.M.Co.

(Diff = CR)

DM/ mem of D.M.Co.
To ESC

SOD   Demerger

when i say stop @ entry 2
↳ S.O.D.

& Pass entry 3
↳ Demerger

Am.

D.M.

① Liab. Dr (B.V.)
R.C. Dr (P.C.)
To Asset (B.V.)
} R.S.

② E.Sh.
To R.C.
SOD

③ R.S.
To E.Sh.
D.M.

R.C.

① A @ FV Dr
To Liab @ FV
To DM/ mem of Dem

(diff = gw/gon B.P.)

② DM/ m. of DM.
To ESC

Ist. Chart.

Group a/c

- N.A. of acquiree on DoA
  - 103 → Assets − Liabilities
  - 110 → S.C + Res.
- NCI
  - PSNA
    - %. × N.A. of A'ee as on DoA.
  - F.V.
    - M.P.
      - no. of Shares held × FV (acq.ree) of E sh.
    - PTP
      - $\frac{PC}{P\%} \times NCI\%$
- Goodwill
  - N.A. as on DoA
  - −
  - 1) P.C.
  - 2) FV of inv earlier held.
  - 3) NCI
  - xxx

2nd chart.

- what is Biz.
- what is B/C
- How to identify B/C
  - C.T
  - BAT

3rd chart

B. Comb.

- Merger
  - w/o C.C.
    - L.A. = A.A.
    - LA ≠ AA.
  - with CC
    - POI
- Demerger
  - with CC
    - POI
  - w/o CC
    - AM

RAM

Acqee is Dead → A.M.

Acqee is alive → A.M.

Steps.

S1 Acqer
S2 DoA
S3 NA
S4 PC
S5 NcI
S6 giw/gon BP
S7 alcing (acqees acqrer)

↳ SFS only

↳ SFS/CFS

Rev. Q. → yourself.