Ind AS 103 → Business Combination

1. Defⁿ of Busn Comb
2. Control (Ind AS 110)
3. Business
   - 3.1. Elements of Busn
   - 3.2. Concentration Test
4. Asset Acquisition
5. Accounting for Busn Combⁿ (LDR)
   - 6 Steps

6. Common Control Transactions (LDR)
7. Demerger (LDR)
   - Demerger under common control
   - Demerger NOT under common control
8. Reverse Acquisition (LDR)
9. Other Important Points
   - A. Measurement Period
   - B. Determining what is part of Busn Comb.

* Defn of Bus^{n} Combination

Purchasing Co. → Acquirer [Parent Co.] → Ind AS 103.

Selling Co. → Acquiree [Subs. Co.]

(AK Ltd) (Mukku Ltd)

B-C → Acquirer obtains **control** over acquiree's Bus^{n}.

- By acquiring more than 50% stake
- By acquiring All assets & liabilities of acquiree.

OFY Jul

By acquiring more than 50% stake

Purchasing Co. (acquirer) (Parent)

- SFS (Ind AS 27) ⇓ Invst in Subs shares ~~to~~ @ CIB
- CFS

Selling Co. (acquiree) (Subsidiary) ⇓ Existing Co ⇓ SFS (IFS).

~~24~~ / ~~103~~ / ~~110~~

* IFS - Individual Fin. Stat.

CFS:

- Day ① (Date of Acquisition of control) ⇓ Ind AS 103 (Bus^{n} Comb^{n})
- Every yr end ⇓ Ind AS 110 (CFS)

By acquiring all Assets & Liabilities

Purch. Co. ⇓ SFS / CFS ⇓ ~~Invst in Shares~~ ⇓ Records all Assets & Liab^{y} of acquiree ⇓ Ind AS 103.

Sell^{g} Co. ⇓ Closed

No yr end CFS ⇓ as Sell^{g} Co. is closed.

SFS - Seperate Financial Stat.

CFS - Consolidated Fin. Stat.

IFS - Individual Fin Stat.

* Asset Acquisition [which is Not a Busn Combⁿ]
↳ [Here we acquire only few Assets & Not full Busn]

↓
Ind AS 16, 38, 40

Eg: AK Ltd purchased Land & PLM. Consideration paid → 18cr + legal cost for land 1cr

Land FV = 10cr
PLM FV = 5cr

↓ Directly Attri Exp.

Pass J.E.

cost (Land)	Land A/c Dr	12cr + 1cr	(18cr × 10/15)
	PLM A/c Dr	6cr	(18cr × 5/15)
~~P/L / GW~~			
	To CIB		18cr
	To CIB (legal cost)		1cr

[NO P/L on Purchase / No GW arises on purchase of Assets]

* Accounting for Busn Combⁿ

⇓

Ak Ltd acquired Mukku Ltd on 01.04.X1 for ₹ 150 cr.

Net Assets of Mukku Ltd were ₹ 110 cr.

⇓

6 steps (Refer Concept Book)

* Eg: Deferred Consideration

01/04/X1 Ak Ltd acquired Mukku Ltd for PC (₹ 100 crores) → Cash.

Net Assets of Mukku Ltd = ₹ 250 crores.

Also, Ak Ltd promised ₹ 200 crores in Cash → will be paid after 2 yrs

⇓

Deferred Consideration

↳ P.C @ Present value

⇓

D.F. @ 10%.

$$PV = \frac{200}{(1.10)^2} = 165.29 \text{ cr}$$

Total PC paid = 100 crores + 165.29 crores

= ₹ 265.29 crores.

J.E. for Busn Combⁿ

NA Alc	Dr	250 cr
Gdw Alc	Dr	15.29
To PC		
CIB		100 cr
Prov for Def Cons		165.29

Def Cons Day ① 165.29 —unwinding→ After 2 yrs Pay ₹ 200 cr.

J.E 4r1end

Int (PL) 16.53

To Prov for Def Cons 16.53.

4r2end Int 18.18

To Prov 18.18

Prov for Def Cons 200

To CIB 200

4r	Opn	Int @ 10%	Cls
1	165.29	16.53	181.82
2	181.82	18.18	200

Eg: Contingent Consideration

AK Ltd acquired Mukku Ltd for PC (Cash) 100 cr

Net Assets of Mukku Ltd → ₹ 250 cr

After 2yrs → AK Ltd will pay ₹ 300 crores in cash provided Mukku's profit exceeds ₹ 500 crore in Next 2 years.

Day ① FV of Couting. Cons = ₹ 190 crores

Contingent Consideration

⇓

PC included → Fair Value (on Date of Acqn.)

⇓

PV + Prob

Always given in the ques.

Total PC = 100 cr (Cash) + 190 cr (Couting Cons.) = 290 cr.

J.E for Busn Comb.

NA A/c	Dr	250 cr
Gw A/c	Dr	40 cr
To PC		
Cash		100 cr
Prov for C.C.		190 cr (@ Fair Value)

4yr end → Contingent Consideration is Remeasured @ FV on 4yr end.

[F.V of CC on 4yr end = ₹ 260 cr] → Given.

4yr end

PL A/c Dr 70 cr

To Prov for CC 70 cr

[260 − 190]

4r 2 end

Mukku meets Target

⇓

Pay for CC ₹ 300 crores.

PIL A/c Dr 40

To Prov for CC 40

Prov for CC A/c 300

To CIB 300

Target Not met

⇓

Prov for CC (Reverse)

Prov for CC A/c Dr 260 cr

To PIL A/c 260 cr.

Suppose in above eg: instead of ₹ 300 crores cash, SL shares were offered as contingent consideration.

Acctng same → i.e. Day ① PC → FV of CC will be consideration

⇓

But on Each 4r end → Prov for CC → will Not be remeasured (as fixed No. of shares are promised)

Summary for Contingent Consideration

Meets the defn of Fin. Liab

⇓

Cash / Variable No. of shares.

- Day ① ⇓ Include in PC @ Fair value
- 4r end ⇓ Remeasure through PIL

Meets Defn of Equity

⇓

Fixed No. of shares

- Day ① ⇓ Include in PC @ fair value
- 4r end ⇓ Not remeasured on 4r end.

* Contingent Payment to Employee Shareholders

- In the capacity of employee ⇓ Not form Part of PC
- In the capacity of SH ⇓ will form Part of PC

Eg.

AK ltd acquired Mukku ltd → SH / Emp ⇓ Jeetu.

AK ltd ⇓ offered Jeetu ⇓ Join us ↳ work for 2 yrs ⇒ ₹ 25 crores Cash

---

* SBP Awards

AK ltd (acquirer) —01.04.21 acquired→ Mukku ltd (acquiree) → 01.04.19 → SBP Announced

Also, acquired SBP Plan of Mukku ltd on 01.04.21

01.04.19 ⇓

V.P. = 5 yrs

Emp = 100 emp

No. of options = 500 options.

F.V. on G.D = ₹ 70.

Mukku Books

01.04.19 → G.D. No entry

31.03.20 → EBE 7L
TO SBP Rese 7L
[100 × 500 × 70 × 1/5]

31.3.21 EBE 7L
TO SBP Rese 7L

AK ltd

01.04.21 → SBP Plan Acquired. → PC Adj SBP Reserve ⇓ 14L.

31.3.22 EBE A/c 7L
TO SBP Rese 7L

31/3/23 EBE 7L
TO SBP Rese 7L

31/3/24 EBE 7L
TO SBP Rese 7L

31.3.24 → AK Books SBP Rese → 21 lakhs

AK 31.3.24 → Shares Issue under SBP [100 × 500 × 70]

35L

35L

AK → Exp'g SBP Reserve

21 Lakhs

14L Extra

PC → Given by AK ltd to Mukku ltd on Date of Acqn.

01.04.21

NA A/c Dr

TO PC

Cash

Prov for D.C

Prov for CC.

SBP Reserve 14L

Summary

SBP Plan Acquired by AK ltd

Pre-Comb Period (2yrs)

14L

= Total FV of OG SBP (X) Expired Period / Total O.G V.P (OR) Total Revised V.P (whichever is higher)

100 × 500 × 70

= 35L × 2yrs / 5yrs

= 14L → PC include

Post Comb^{n} Period (3yrs)

21L

Not form part of PC.

↓

Acquirer (AK ltd) Books over the remaining period of 3yrs.

* V.P – Vesting Period

Illus 27

SBP Award (Replaced)

Pre-Comb (2yrs)

= FV of OG SBP Award x Expired Period / Total OG VP or Total Rev. VP (whichever is higher)

= 500 x 2 / ~~4~~ or 5

= 200

Form Part of PC

Post Comb (2yrs) → Acquirer will Book during remaining V.P.

FV of Replaced Award (-) Pre Comb^{n}

= 600 (-) 200

= 400 → Book over 2 yrs

why we took FV of Replaced i.e. 600? → This Fair value is as per the share price of acquirer, & in future acquirer will Book & issue shares Based on his own share price.

* **Step 4 : INA of acquiree (Subs) @ Fair value**

⇓

Exceptions

→ Classification ⇓ of lease cannot change.

Other Exceptions / clarifications to the Recog & Meas principle.

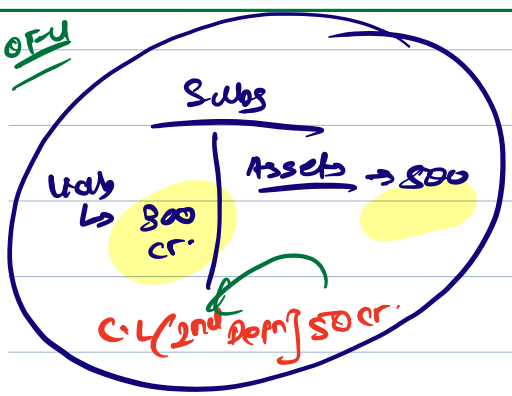
(A) Contingent liab (Ind AS 37) Disclose

1. Poss ob	2. Present obligation	3. Present obligation
Past Event	Past Event	Past Event
outflow of Resources	outflow is (NOT) Prob.	outflow is Prob.
Amt Est reliably	Amt Est reliab	Amt (CANNOT) be Est.
	⇓	⇓
Ind AS 37: Disclose	Disclose	Disclose
Ind AS 103 : Disclose	Ind AS 103 : Record	Ind AS 103 : Disclose.
	⇓	
	in INA & NOT PC.	
	⇓	
	@ Fair value on Date of Acqn.	

⇓

If nothing is mentioned about Contingent liab^y given in the ques → Assume 2nd Defn wali Cont liab is given i.e. take over the same in step (4) INA

OFY



⇒ PC = ~~300~~ 150

(E) Indemnification Asset (Reimb Asset)

Against Liab ↓ (Record) → Indemnification Asset ↳ Record in INA.

Against Cont Liab ↓ Recorded in Ind AS 103 → Indem. Asset ↳ Record in INA.

Against Cont ↓ Liab (Disclose under Ind AS 103) → Indem Asset ↳ Disclose.

Note: Amt of Indemnification Asset cannot exceed the amt of Liab.

G. Re-acquired Rights

01/04/X1 AK Ltd → FR with AK franchise → Jeetu Ltd (15 yrs @ 150 crore) = Franchise 150 crores

After 6 yrs i.e. on 01/04/X7 } AK Ltd acquired Jeetu Ltd →

Jeetu	C.A	F.V. (Given)
Franch	90 cr	110 cr

(150 cr ⇒ 6 yrs Amortization)

Jeetu Ltd → FR with AK Franchise

Re-acquired Rights for AK Ltd. → AK takeovers @ (F.V on (Do Acqn) ₹110 cr (in step 4 INA).

6:45 pm

Step 4 INA (Summary)

↓

@. Fair value.

Exceptions

- classification
  - ↓ lease
  - (Do not change classificat°)
- Meas. / Recog.
  - Cont Liab
    - ↓ Pr. Ob
    - P. E outflow X Est °
    - ↓ Record in INA
  - Def. Tax → ↓ Ind AS 12
  - Emp Ben. Asset/ Liab → ↓ Ind As 19.
  - NCA HFS (Ind AS 105).
    - ↓ FVLCTS.
  - Indemnification Asset → ↓ Record (Same treat as liab)
  - SBP Awards → ↓ Discussed in PC
  - Re-acquired Rights → ↓ @ Fair value
  - lease Asset / Liab of acquired → ↓ Take over @ Fair Value

Amendment: Cont. Asset Recog (in INA) prohibited.

Eg: NCI (Non Controlling Interest) < FV Method → 1st pref
PSNA Method → 2nd pref.

AK ltd acquired 75% of Mukku ltd for 80 cr [PC].

INA of Mukku ltd (100%) = 100 cr.

OFY

AK ltd

Stake 75% | control 100%

AK ltd (CFS)

INA → 100% takeover.
NCI → 25% → Does not Belong to AK.

J.E · AK ltd

INA (100%) Dr 100 cr (100%)
Gw (BH) Dr Scr

To PC (75%) 80 cr
To NCI (25%) 25 cr → Prop Share of Net Assets (PSNA).

↳ Liab x
↳ Eq. Sep. Head.

BIS
Assets
Eq & Liab
Equity
① Esc
② O.E
② NCI.

Step ⑥ Gw / GBP

~~PC (75%) → 80 cr~~
~~(-) INA (75%) → 75 cr~~
~~Gw Scr~~

PSNA (100 cr x 25%)

PC (75%) 80 cr
(+) NCI (25%) 25 cr. (PSNA)
(-) INA (100%) (100 cr)
Partial Gw Scr

compare 100% with 100%.

↳ only Belongs to AK ltd (Parent).

Case 2: Assume in above eg: FV of NCI is ₹28cr. [No. of shares held by NCI (x) Fair value per share]

J.E.

INA A/c Dr	100cr (100%)
Gww A/c Dr	8cr
To PC (75%)	80cr
To NCI (25%)	28cr

Step 6

PC (75%) 80cr

(+) NCI (25%) 28cr

(-) INA (100%) (100cr)

Full Gww

8cr → Belongs to A/c (Parent)

3 → NCI → Gww

CFS Record Gww at ₹8cr.

Gww as per NCI (PSNA)

Gww as per NCI (FV)

NCI (Summary)

NCI

- FV (1st pref) ⇓ Full Gww → Parent, NCI
- PSNA (2nd pref) ⇓ Partial Gww → Only Parent

Eg: Prev held Invst

On 01.04.X1, AK Ltd purchased 15% stake in Mukku Ltd for ₹10 crores

On 01.04.X3, AK Ltd purchased another 60% stake for ₹75 crores.

INA on 01.04.X3 ⟶ ₹100 crores.

Given ⇒ F.V of Prev held Invst on DOAcqn = ₹17 cr.

Step 6 Glw / GBP (on 01.04.X3)

PC (60%)	75 cr	→ 01.04.X3
(+) NCI (25%)	25 cr	→ PSNA (100 cr x 25%)
(+) Prev held Invst (15%)	~~10 cr~~ 17 cr	→ 01.04.X3
(-) INA (100%)	(100 cr)	→ 01.04.X3
	17 cr.	

Partial Glw

- Prev held Invst → FV on Date of Acqn.

(You can also include Prev held Invst in PC (i.e. Step 3))

- Gain on Prev held Invst [17cr - 10cr] = 7cr → P/L/OCI
  - Mar cases.

CFS/~~SFS~~

Illus 41 CLOR

Step ① Id. the acquirer

→ Comp^y A.

Step ② Date of Acqn

1st Nov

Step ③ PC

65%

Cash	59,00,000	
Shares (1L x ₹10)	10,00,000	
Contingent Cons. (@FV)	3,00,000 →	72,00,000

ICAI takes this in Step ③, Alternatively you can directly consider this in step ⑥ Glw/GBP.

25% (Prev held Invst)	@FV on DOAcqn	20,00,000 →
		92,00,000

Step 4 INA (100%) → 60,00,000

Step ⑤ NCI (@ Fair value) → 750000
(10%)

Step ⑥ Glw / GBP

PC (65%)	72,00,000
(+) Prev held Invst (25%)	20,00,000
(+) NCI @ FV (10%)	750000
(-) INA @ FV (100%)	(60,00,000)
Full Glw	39,50,000

Not asked { Parent 38,00000 NCI (Blf) 150000

Extra (Not asked)

Glw if NCI @ PSNA

PC (65%)	72L
(+) Prev (25%)	20L
(+) NCI (@PSNA) 6L	(60L x 10%)
(-) INA	(60L)
Partial Glw	38L

↓ Parent Glw

Illust 40 (LDR)

Step ① Id. the Acquirer → Professional Ltd.

Step ② Date of Acqn → 01/04/X2

Step ③ PC (for.)

1. Shares = $\frac{₹400}{₹100}$ (Face value) = 4L shares × 70% × $\frac{1}{2}$ × ₹40 (Face value ₹10, Sec. Prem ₹30) = **₹ 56 lakhs**

Face value 14L
Sec Prem 42L

Payment Higher of:

- 35L (Minimum) → Def. Cons.
- or 25% of excess profit
  - Prev 12m → 10L
  - Next 12m → ~~20L~~ 30L
  - Excess = 20L × 25% = 5L.

2. Def. Cons. $\left(\frac{35L}{(1.10)^2}\right)$ (Imp) = ₹ 28.93L

3. Contingent pay (In cap. of emp) = –

4. Pre Comb SBP Award $\left[5L \times \frac{2}{4yrs}\right]$ = ₹ 2.5L

87.43L

Step ④ INA of Dynamic Ltd (100%) (@ F.V on DOAcqn)

Assets		Liab	
PPE (@FV)	350		(200)
Invst	100		(70)
	150		(35)
	300		(150)
	100		(300)
	230	Cont Liab @ FV.	(5)
DTA (WN1)	46.5		

INA = ₹ 16.5 lakhs

Con ① D·T on B·C.

	C·A (FV)	T·B (Old C·A)	Diff	DTA/DTL @ 30%.
① PPE	350	500	150	45 → DTA
② Cont liab	5	0	5	1·5 → DTA
				46·5 → DTA → Include in Step ④.

Step ⑤ NCI (FV → Not available) PSNA ← 30% ↑

516·5 × 30%

= 154·95

Step ⑥ Glw / GBP

PC (70%)	87·43
(+) NCI (30%)	154·95
(-) INA (100%)	(516·5)
GBP	(274·12)

GBP ⇓ O·E (Cap. Rese).

OE4 J·E · (Day 1) CFS.

INA A/c Dr 516·5 → Bk

To PC (70%)

ESC	14L	→ Eq ↑
S·P	42L	→ O·E
Prov for D·C	28·93	→ Liab (NCI)
GBP Rese	2·5	→ O·E

To NCI (30%) 154·95 → Eq → Sep. head

To GBP 274·12 → O·E (Cap Rese)

Consolidated Bls of Profession Ltd as on 01.04.X2.	₹ in lakhs
I] Assets	
NCA	
PPE [300 + 350] (Dynamic @FV)	650
Invst [400 + 100]	500
GW	-
~~DTA~~ (Net DTL)	
Current Assets	
Inventories [250 + 150]	400
Trade receivables [450 + 300]	750
Cash & Cash Eq [200 + 100]	300
Others [400 + 230]	630
	3230
II] Eq & Liab	
Eq	
Only Prof. — Esc (Only Prof) [500 + 14] (PC)	514.
Only Prof. — O.E (W N2)	1128.62
Jwl NCI (Steps)	154.95
Liab	
NCL	
L.T.B [250 + 200]	450
L.T.P [50 + 70 + 28.93] (Prov for Def. Cons.)	148.93
Jwl DT.L (Net) (40 + 35 (→ 46.5) DTA)	28.5
CL	
STB [100 + 150]	250
T.P [250 + 300]	550
Cont Liab [@ F.V.]	5
	3230.

Jun

CON 2 Other Eq

①	Prof (O.E)	810
②	Sec. Prem	42
③	SBP Rese	2.5
④	Cap Rese (GBP)	274.12
		1128.62

Illus 49 (LDR)

Step ① Id the acq → ABC Ltd

Step ② DOAcq^n — 1st July X1

Step ③ PC (75%)

Shares → 1·2cr x 75% x $\frac{1}{3}$ x ₹6·5 = 3,90,00,000

Def Cons → $\frac{71,50000}{(1·10)}$ = 65,00,000

Cons Cons → FV on DOAcq^n = 2,50,00,000

7,05,00,000

Step ④ INA of JKL @ FV.

INA	7,00,00,000
(-) DTL	(20,00,000)
	6,80,00,000

CON ① DTon BC

	C·A [FV]	T·B (C·A)	Diff	DTL @20%
INA	7cr	6cr	1cr	20L.

Step ⑤ NCI (25%)

Fair Value

(No. of shares of NCI (x) Fair value of Shares)

1·2cr shares x 25%.

= 30,00,000 shares (x) ₹6 ← Fair value per share of JKL.

= 1,80,00,000

PSNA

INA x 25%.

6·8cr x 25%.

= 1,70,00,000

Step 6 GW / GBP

When NCI (FV)		When NCI (PSNA)	
PC (75%)	7,05,00,000	PC (75%)	7,05,00,000
(+) NCI (25%)	1,80,00,000 → FV	(+) NCI (25%)	1,70,00,000 → PSNA
(-) INA (100%)	(6,80,00,000)	(-) INA (100%)	(6,80,00,000)
Full GW	2,05,00,000	Partial GW	1,95,00,000
Impairment @10%	(20,50,000)	Impairment @10%	(19,50,000)
Bal GW	1,84,50,000	Bal GW	1,75,50,000

Illus 50

Case 1: Fixed No. of shares in Contingent Consideration

Contingent Consideration → Included in PC → @ FV on DOAcqn.

↳ On 4r end it is Not Remeas. since fixed No. of shares are promised.

Total PC (on DOAcqn)

Shares (10L x ₹20)	200L
Cont Cons (FV on DO Acqn)	25L
	225L.

Case 2: Variable No. of shares in Contingent Consideration

↳ Include in PC @ FV on DOAcqn.

↳ Since Variable No. of shares are promised it will be Remeasured at 4r end through PIL.

Total PC

Shares (10L x ₹20)	200L
C.C (FV on DO Acqn	25L
	225L.

4r end FV of CC → ₹40L (↑ by 15L)

PIL A/c Dr 15L

To Prov for CC 15L.

Ques 4 (MTP / RTP)

Step ① Acq – BIMA

② DOA – 1st June X1

③ PC

Cash	50L
Shares (50K x 25)	12.5L
CC (@ FV)	9.8L
	72.3L

Note: Direct cost on B.C → P/L (150000).

④ INA = 80L (100%)

⑤ NCI (35%) → FV

12L shares x 35%

= 35000 shares of Nafa x ₹12 = 420000

⑥ Gw / GBP

	PC (65%)	72.3L
(+)	NCI (35%)	4.2L
(-)	INA (100%)	(80L)
	GBP	(3.5L)

J.E

INA A/c Dr 80L

To PC (65%)

Cash	50L
Shares	12.5L
Prov for CC	9.8L

To NCI (35%) 4.2L

To GBP 3.5L.

* Measurement Period [1 year]

Eg: AK Hd took over 75% of AKW Hd. INA @ FV = ₹1100 → provisional Amt.

PC (75%) = 1000 cr.

NCI @ PSNA.

Date of Acqn - 01.04.X2

Date of Acqn 01.04.X2

Step 6 Gw | GBP

PC (75%)	= 1000 cr	
(+) NCI (25%)	= 275 cr	(PSNA) (1100 × 25%)
(-) INA (100%)	= (1100)	
Gw	175 cr	

14.02.X3 (within 1 year from Date of Acqn)

→ INA Real FV on DOAcqn = ₹1200 cr.

OEV

PC (75%)	= 1000 cr	
NCI (25%)	= 300 cr	(1200 × 25%) ↑ by 25 cr.
(-) INA (100%)	= (1200 cr)	↑ by 100 cr
Gw	100 cr.	↓ by 75 cr

J.E. 14.02.23

INA A/c Dr 100 → PSNA

TO NCI (25%) 25 cr

TO Gw (75%) 75 cr.

↳ (BIP).

⇓

In exam.

what if NCI was at FV.

J.E 14.02.X3 INA A/c Dr 100

~~TO NCI~~ → ~~PSNA~~

TO Gw 100

Measurement Period (Summary)

If infon received within 1 yr AND it relates to Date of Acqn
↓
Adj GW (+) NCI (PSNA)

If infon received within 1 yr BUT DOES NOT relate to Date of Acqn.
↓
Adj PIL

If infon is received after 1 year
↓
Adj PIL

Illus 52. (LDR)

(i) Computation of GW / GBP

Step (1) Id. the Acquirer → H ltd.

Step (2) → Date of Acqn → 01/01/17

Step (3) PC

(i) 45%.

Shares [12 crores / ₹100 (Face Value) = 0.12cr shares × 45% × 1/2 × ₹10,000] = 270 crores.

Cash	50 crores
Contingent Consideration (@ FV on DOAcqn)	22 crores
	342 crores

(ii) 15% (Prev Held Invst)

[12cr / ₹100 = 0.12cr shares × 15% × ₹395] — 7.11 crores

Step 4 INA of Sltd (@ FV)

Assets @ F.V	(₹in crores)
PPE @ F.V	90
I.A	30
Invst	350
Inventory	20
Trade Rebables	20
Cash	4
NCA HFS @ FVLCTS	4
Indemnificatn Asset	1

No info given ∴ Assumed OTTD.

WN ① Calⁿ of D.T. on B.C

Items	C.A (F.V)	T.B (old C.A)	Diff	DT @ 30%
① PPE	90	40	50	15 → DTL
② I.A	30	20	10	3 → DTL
③ Invst	350	100	250	75 → DTL
④ Cont liab	0.5	0	0.5	(0.15) → DTA
⑤ Cont liab	② → Diff OTTD			92.85
⑥ Indemn Asset	1 → Diff OTTD.			

92.85 ⇓ Net DTL

Less: Liabilities

Borrowings	(28)
Trade Payables	(20)
Warranties	(3)
Curr. Tax Liab	(4)
Prov for Cont Liab	(2.5) (0.5 + 2)
DTL (WN 1)	(92.85)
INA	368.65

Step 5 → NCI (@ PSNA) [40%]

368.65 × 40% = 147.46

Step ⑥ Glw / GBP

PC (45%)	= 342
(+) Prev held Invst (15%)	= 7.11
(+) NCI (40%)	= 147.46
(-) INA (100%)	= (368.65)
Glw on Date of Acqn 01.01.17.	127.92

(ii) Subsequent to 31st March, 17 (i.e. on 31/05/17) → Meas. Period Adj

31/05/17 INA (Intangible Asset) A/c Dr 3.5

To NCI (40%) A/c 1.4 → PSNA

To Glw (60%) A/c (2.1)

Note: Customer Relations generated during 01st Jan to 31st March, 17, Does not relate to Date of Acqn. ∴ No Adj to Glw / INA / NCI.

Also they are self generated ∴ NOT Recognised.

(iii) Value of Contingent Consideration on 31/3/17

Cont. Cons → Cash / Variable No. of shares → Remeasure @ each yr end thru P/L

01/01/17 → 22cr

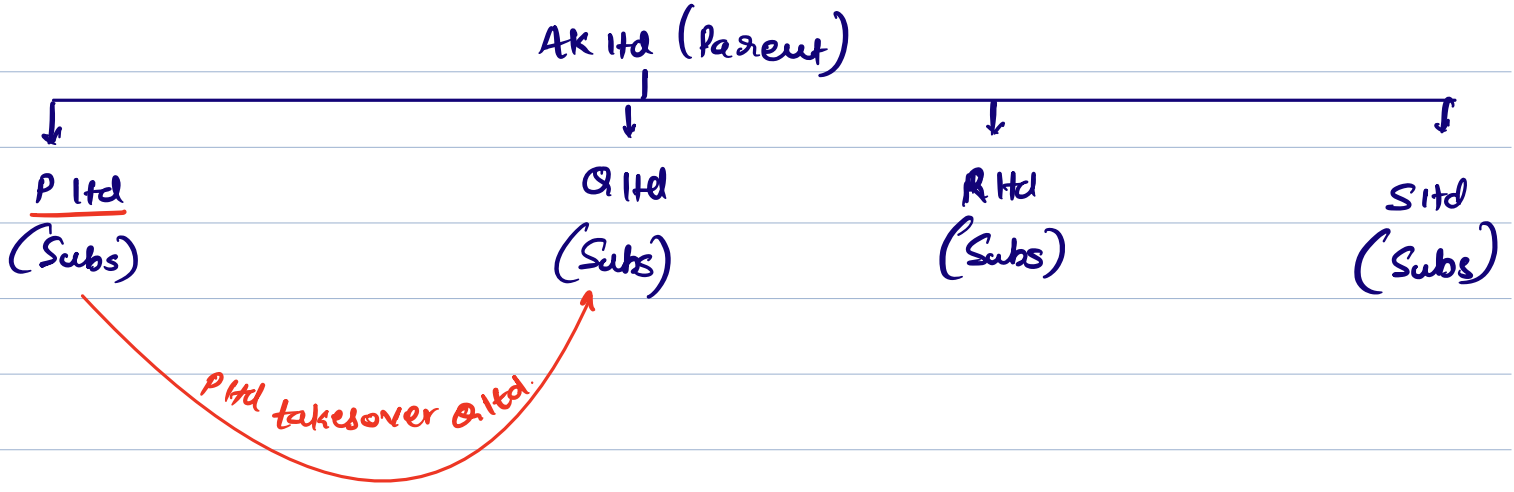
31/03/17 → 23cr

↑ by 1cr

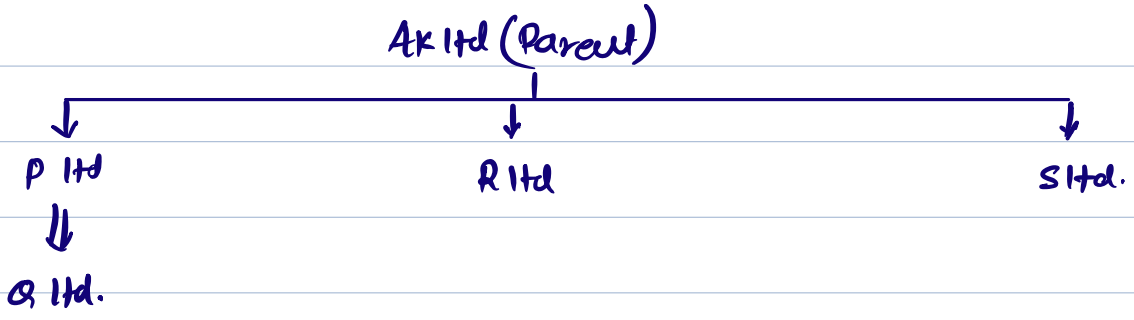
J.E 31/03/17

P/L	1cr	
To Prov for C.C.		1cr.

6. Common Control Transactions (CCT)



After Takeover



Hint for Common Control Transaction

Before & After Takeover, Ultimate control Party is the same.

Accounting for CCT [Similar to AS 14 - Pooling of Int Method]

Step ① Id the acquirer → P ltd (Ultimate Parent → Ak ltd).

Step ② DOAcqn.

Step ③ PC

- Cash / Assets @ Fair value
- Shares → Face value / Nominal value (Jump)
- Other PC (D.C, CC, Pre S.Cap) → Same. (Exam point of view → Not asked in CCT).

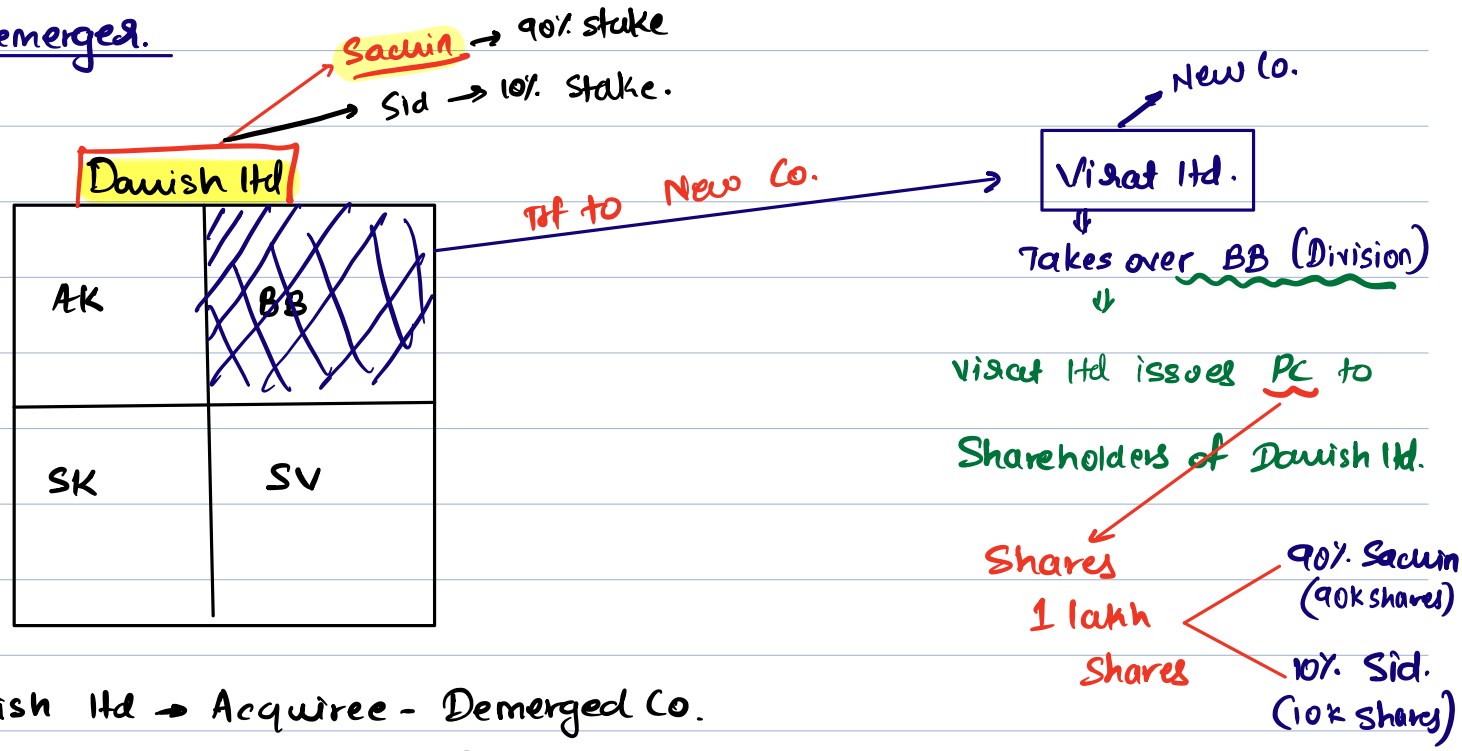
Step ④ INA of Subs (Q ltd) ~~@ Fair value~~ @ Book value / Carrying Amt (Jump)

(+) Reserves of Q ltd (Subs) @ Book value.

Step ⑤ NCI - Not applicable.

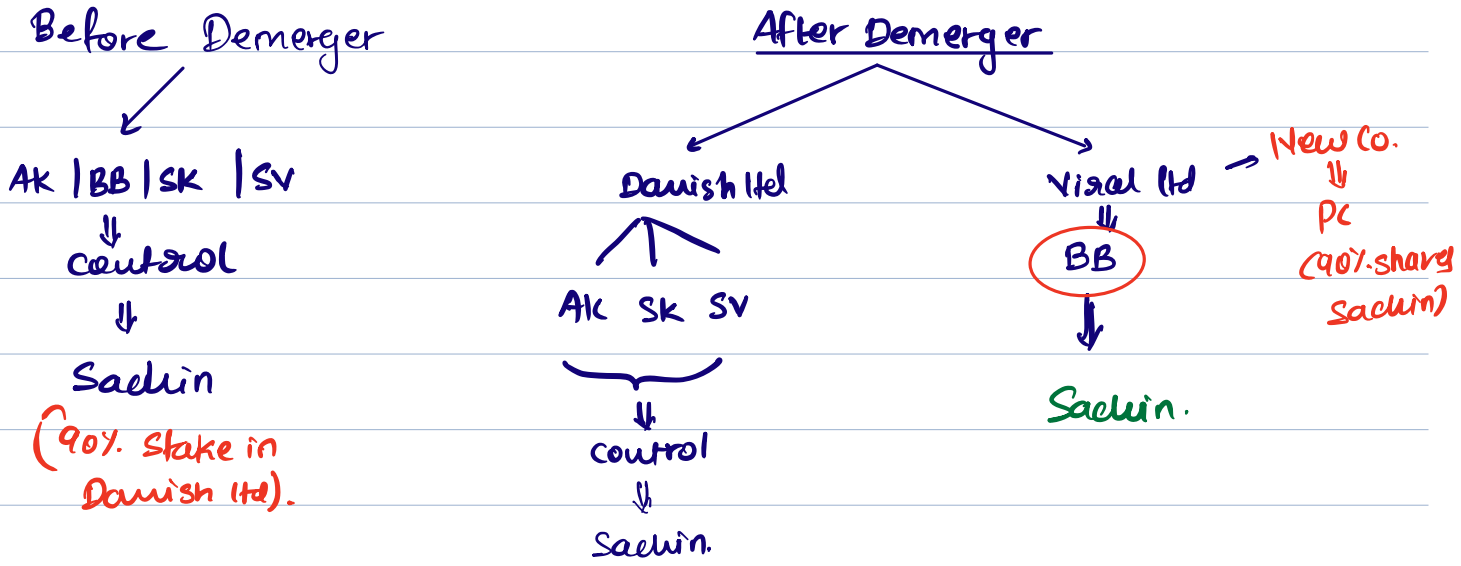
Step ⑥ ~~Goodwill~~ Diff Dr. Bal / Cr. Bal → Cap. Reserve (Jump)

7. Demerger.



Danish ltd → Acquiree - Demerged Co.

Virat ltd → Acquirer → Resultant Co.



DEMERGER UNDER COMMON CONTROL

Hint: ① Demerged Co. (Danish ltd) → Major Shareholder (more than 50%) (eg. Sachin 90%).

AND

② Resultant Co. (Virat ltd) → PC → Shares

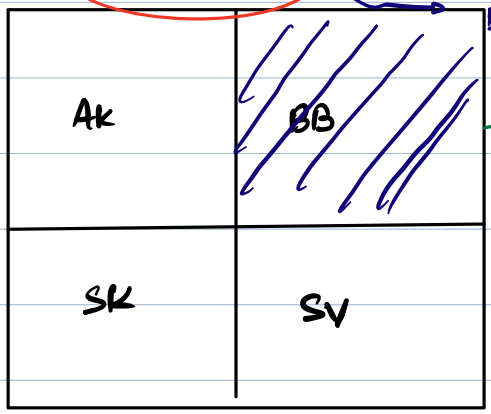
[Both Conditions satisfied, then Demerger under CC]

Eg2.

No single controlling party

Snigdha → 10%.
Ankita - 12%.
Jeetu → 15%.
Bharat → 10%.
Laxmi → 5%.
Ashwani - 15%
Bal - others

Danish ltd



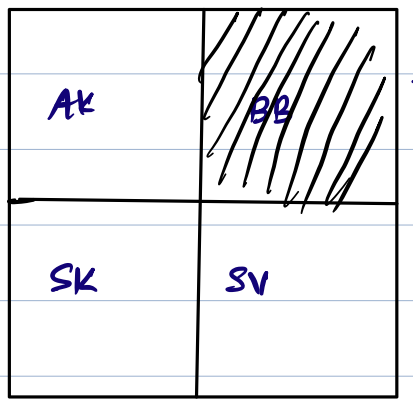
Trf BB (Div) to New Co. → Visal ltd.
⇓
PC issue → share 1 lakh share.

Demerger NOT under Common Control (Reason:- No Major SH)

Sachin 90%.
Ankita 10%.

Eg3.

Danish ltd



Trf to New Co.

Visal ltd (BB Div)
⇓
PC issue. → ~~Shares~~ Cash

Sachin 90% | Ankita 10%.

Demerger NOT under Common Control (Reason PC → cash).

* Accounting for De-Merger

Demerger under CC

Demerger Not under CC

Demerger Not under CC

Acquiree (Demerged Co.) → Danish ltd.

Liab A/c Dr. @ Carrying Amt

~~PC A/c Dr~~

To Assets A/c → @ Carrying Amt

Diff Dr/Cr. → Cap. Reserve

Note: PC inflow → Do NOT record as PC is received by SH & Not Co.

Acquirer (Resultant Co.) Viral ltd.

6 Steps Accounting (Acquisition Method)

INA A/c Dr (@ Fair value)

Goodwill A/c

To PC A/c

~~To NCI~~ To GBP A/c

Co2 No stake acquired Directly Assets & Liab of Division acquired.

Demerger under Common Control

Acquiree (De-Merged Co.)

Liab A/c Dr. → @ C.A

~~Reserves A/c Dr → @ C.A~~

To Assets A/c Dr @ C.A.

Diff → Cap. Reserve.

PC inflow → Do NOT record (Same Reason above).

Acquirer (Resultant Co.)

C.C. A/c'ing

INA A/c Dr → C.A / B.V.

Cap. Rese A/c Dr (Bif)

To PC

Shares @ Nom. value / Face value

others @ Fair value.

~~To Reserves @ Book value~~

To Cap. Rese A/c (Bif).

ICAI → Demerger under CC.
Does Not take over Reserves.

ICAI – Pure common control Owes
Takes over Reserves.

Illus 36 Demerger Under Common Control

① Major SH
② PC → Shares

i) In the Books of Enterprise Ltd.

Prov for Dep A/c	Dr	400	
Curr Liab A/c	Dr	400	
Loan funds A/c	Dr	300	
To PPE A/c			500
To Curr Assets A/c			500
To Cap Rese A/c			100

① PC inflow – DO NOT record

② ICAI Does NOT de-recog. reserves.

ii) Bls of Enterprise ltd (After Demerger)

I] Assets		
1. NCA – PPE	250	
(-) Prov for Deprn	(225)	25
2. C.A		200
		225
II] Eq & Liab		
Eq – ESC		25
Surp O.E [175 – 100 + 100] (Cap. Rese on Demerger)		175
Liab		
CL		25
		225

(iii) Bls of T/O

Extract WN

J-E → In the Books of Turnaround Ltd.

PPE A/c	Dr	500	
C-A A/c	Dr	500	
Cap Rese A/c	Dr (BM)	110	
To Prov for Dep			400
To C-L			400
To Loan			300
To PC Esc (@ Face Value)			10

In common control we issue at face value
∴ Ignore Sec. Prem.

Balance Sheet of Turnaround Ltd.

I] Assets		
NCA		
PPE	500	
(-) Prov for Dep	(400)	100
CA		500
		600
II] Eq & Liab		
Eq - Esc (PC Issued)		10
Bal → O.E (Cap. Rese Dr. Bal)		(110)
Liab		
NCL - Loan		300
CL		400
		600

Illus 37 (LDR)

Demerger Not under CC (Assuming No Major SH)

@ J.E.

In the Books of Maxi Mini Ltd			Mini Ltd		
Locm funds A/c Dr	100		PPE A/c Dr	300	
Prov for Dep A/c Dr	100		C.A A/c Dr	300	
Curr Liab A/c Dr	100		To Locm funds A/c		100
Cap. Rese A/c Dr	300		To Prov for Dep A/c		100
To PPE A/c		300	To Curr Liab A/c		100
To C.A A/c		300	To PC A/c		50
			To GBP (Cap. Rese).		250

Balance Sheet of Maxi Mini as on 1st Nov

	Before Demerger	After Demerger
I] Assets		
A. NCA		
PPE (PPE (-) Prov for Deprn)	300	100
B. CA	700	400
	1000	500
II] Eq & Liab		
Esc (Face value ₹10)	50	50
O.E	650	350 (650 - 300) Dr. Bal of Cap. Rese.
Liab		
NCL	100	-
CL	200	100
	1000	500

Balance sheet of Mini ltd → [Min Div]

	Before Dem.	After Dem.
I] Assets		
NCA		
PPE (PPE - PFD)		200
CA		300
		500
II] Eq & Liab		
Eq → Esc (PC Issue)		50
O.E [GBP - Cap. Resc]		250
Liab		
NCL		100
CL		100
		500

(ii) Net Asset value per eq. share $\left[\frac{\text{Total Net Assets}}{\text{No. of shares}}\right]$

	Pre (Before Dem.)	Post (After Dem.)
1] Mani Mini ltd.	₹140 per share. (700/5cr. share)	₹80 per share. (400/5cr shares)
2] Mini ltd	-	₹60 per share. (300/5cr shares)

(iii) Demerger into 2 Co. has **No Impact** on Shareholder's wealth because Bef. Dem. the Net Asset value of Eq. share was ₹140 per share. & After Demerger it is (₹80 + ₹60) i.e. ₹140 per share.

* Reverse Acquisition

Eg. AK ltd | Mau ltd

SFS	SFS
Eq. shares → 100 shares	Eq shares → 100 shares

AK ltd acquired 100% stake of Mau ltd.
PC → 2 shares for every 1 share.

CFS (AK ltd) Combined Entity	
Eq. share Cap (Only acquirer) → AK ltd.	
100 shares (Opn) + 200 shares (PC issue)	= 300 shares
	AK: 100 shares → 33.33%
	MAU: 200 shares → 66.67%

Step ① Id. the acquirer

Exception: Reverse Acquisition.

Reverse Acquisition → A/c'ing

Step ① Identifying the acquirer

Legal	A/c'ing
AK ltd - legal acquirer	AK ltd - Accounting acquiree
Maw ltd - legal acquiree	Maw ltd - Accounting acquirer

Step ② Date of Acq.

Step ③ PC → Deemed PC (A/c'ing PC)

↳ If Maw issued PC, as Maw ltd is the acquirer.

Maw opn shares → 100 shares / 66.67% = 150 shares (-) 100 shares (opn) = 50 shares (PC)

(X) Maw's Share Price.

PC in (₹)

Step ④ INA of Sub (AK) @ Fair value

Step ⑤ NCI (Not applicable) from exam point of view.

Step ⑥ Glw / GBP

PC (Deemed PC)

(-) INA of Sub (AK) _____

Glw / GBP _____

Illus 42 (LOR)

SFS → acquirer → A ltd ← acquiree ← B ltd

OFY

A ltd		B ltd	
Eq shares	100	Eq. shares	60

A acquired B & PC → 2·5 shares for every 1 share. $60 \times 2.5 = 150$ shares ⇓ A gave to B.

CFS (Combined) → A ltd

Eq. shares → 100 (⇓ Opn) + 150 (⇓ PC) = 250 shares

100 sh → A (40%)

150 sh. → B (60%)

→ Reverse Acqn.

Step ① Id the acquirer

Legal	Accounting
A - legal acquirer	A - Accounting acquiree
B - legal acquiree	B - Accounting acquirer.

Step ② Date of Acqn → 31|12|X1

Jwg

Step ③ Deemed PC [B → (PC) → A]

60 shares (→ 60 shares) = 40 shares (×) Mkt price of B's share

60%.

Issued by B.

= 40 shares × ₹ 40 (Face value 10, Sec. Prem 30)

= ₹1600

IDAI ✗

Step 4 INA of Atld (acquiree) @ Fair value

Assets [500 + 1500]	=	2000
(-) Liab [300 + 400]	=	(700)
INA		1300

} No Tax Rate given ∴ No D.T.

Step (5) NCI ×

Step (6) Glw / GBP

PC (Deemed)	=	1600
(-) INA	=	(1300)
Glw		300

CFS BIS (Rev. Acqn)
↓
Point of B (Acc. Acquirer)

ESC → only (+) PC B (Deemed)

O.E → Only B

Assets
A @ F.V.
B @ C.A

Liab
A @ FV.
B @ C.A

Glw (Deemed) ↳ step 6

Cons BIS → Point of view of B ltd. → Name (legal) → Atld.*

1] Assets		
NCA (3000 + 1500)		4500
B @ C.A, A @ F.V		
Glw		300
C.A (500 + 700)		1200
		6000
Eq & Liab		
Eq - ESC (only B) (600 + 1600)		2200
opn, PC (Deemed)		
O.E (only B)		1400
Liab		
NCL [400 + 1100]		1500
CL [600 + 300]		900
		6000

✱ **Notes**

No. of shares (legal) → A Ltd. = 250 shares

⇓

only for disclosure purpose.

These two ✱ points are only for disclosure purpose & have no impact on any amounts.

Extra Note: legal PC is also Jump → why?

⇓

For % stake of B.

{ 5 min - Rev Acqn.
{ 10 min

6:30 Retump

Illus 38 (CDR)

→ INA @ BV, Reserves @ B.V.

(a) Common Control

(i) PC → ABX < AX, BX

	AX	BX
Assets	13050	15200
less: Liabilities	(4000)	(5500)
Net Assets	9050	9700
Less: Reserves	(3050)	(2700)
	6000	7000

(ii) Discharge of PC

Total PC = 13000

ICAI assumpt^n { [Allocate Between AX & BX in the ratio of Net Assets] ⇓

6275 (13000 × 9050/18750)

6725 (13000 × 9700/18750)

Extra WN

↳ Pass J.E for takeover (Before preparing B/S) → Common Control

In the Books of ABX Ltd.

For takeover of AX Ltd

Assets A/c Dr	13050	
~~G/w~~ Cap. Rese A/c Dr.	275	
To Liab A/c		4000
To Reserves A/c		3050
To PC (ESC)		6275

For takeover of BX Ltd.

Asset A/c Dr	15200	
To Liab A/c		5500
To Reserves A/c		2700
To PC (ESC) A/c		6725
To Cap. Rese A/c		275

Cons. Bal. sheet of ABX ltd

Assets	
NCA	
PPE [8500 + 7500]	16000
Fin. Asset	
Invst [1050 + 550]	1600
CA	
Inventory (1250 + 2750)	4000
Trade Relable (800 + 4000)	5800
CCE (450 + 400)	850
	28250
Eq & liab	
Eq	
Esc [ABX opn → 0, PC issued (6275 + 6725)]	13000
O.E [3050 + 2700 (+ 275 (-) 275 → cap. Rese (Refer S-E.)]	5750
↳ [takeover reserves @ B.V]	
Liab	
NCL	
Fin liab (12% Deb) (3000 + 4000]	7000
CL	
T-P [1000 + 1500]	2500
	28250

B. BX larger entity [Reverse Acqn]

Step ① Id. the acquirer

Legal	Alc'ing
AX → legal acquiree	AX → Alc'ing acquiree
BX → legal acquiree	BX → Alc'ing acquirer
ABX → legal acquirer	ABX → Alc'ing acquiree. ↳ Blank Co.

Step ② Date of Acqn → 01.01.X2.

Step ③ Deemed PC [BX $\xrightarrow{PC}$ AX / ABX] — 2nd

₹1000 / ₹10 = 700 shares / 56% (-) 700 shares = 550 shares

(X) MKt price of BX's share (WN 2) = ₹ 20 per share

Total PC 11000 (FV 5500, S.P 5500)

WN ② MKt price of BX ltd's share = FV of Busn / No. of shares = 14000 / 700 shares = ₹ 20 per share.

WN ① legal PC is required Before Deemed PC. For stake of BX.

	ABX	AX	BX
PC (FV of Busn)		11000	14000
÷ Face Value		₹10	₹10
No. of shares		1100	1400
		44%	56%

ABX CFS

Es (1100 + 1400) = 2500 → AX → 1100 → 44%; BX → 1400 → 56%

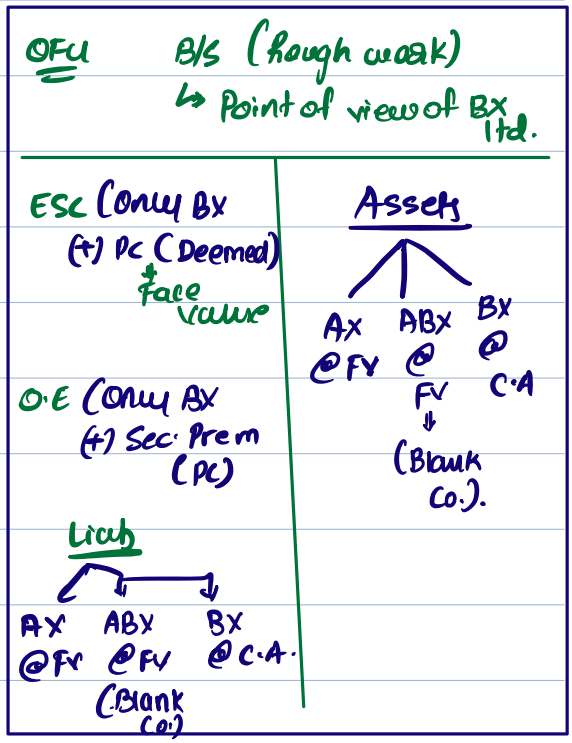
Step 4 INA of acquiree (AX @ Fair value), ABX @ fair value
↳ Blank Co.

Assets of AX @ FV		14100
[9500 + 1050 + 1300 + 1800 + 450]		
(-) Liab of AX @ FV	(3000 + 1000)	(4000)
	INA	10,100

Step (5) NCI x

Step (6) Gw / GBP

PC	11000
(-) INA	(10100)
Gw	900



Cons BS of Point of view Bx ltd

Name legal → ABY.

I] Assets	
NCA	
PPE [9500 + 7500] (AX @ FV, BX @ BV)	17000
Good Will	900
Fin. Asset	
Invst	1600
Curr. Asset	
Inventory [1300 + 2750]	4050
Trade receivable	5800
CCE	850
	30200
II] Eq & Liab	
Equity	
Esc [7000 (BX opn) + 5500 (BX (PC) Face value.)] → No. of shares legal = 2500 shares (Refer step 3 WN (1))	12500
O.E [2700 (BX opn) + 5500 (sec prem.)]	8200
Liab	
NCL	
Fin Liab - Borrowings	7000
CL	
Trade Payables	2500
	30200

Key points of the question

① Part (a) → Common Control

⇓

PC → Asset (-) Liab (-) Reserves < AX 6000, BX 7000

Total 13000 → Discharge in ratio of Net Assets Between AX & BX.

---

② Part (b) → Reverse Acqn → legal PC (Not given)

⇓

Assume F.V of Busn is the ratio in which ABX will give legal PC

② Deemed PC

↳ No. of shares to be issued by BX (550 shares)

(x) Mkt price of BX share

Jump → FV of Busn of BX / No. of shares.

Q6 (MTP | RTP | PP)

⇩

Ed 5 Q3 (Ind AS 38) Pg 19.14

Step 6 GCW | GBP

PC (100%)		38 cr
(+) NCI (0%)	-	
(-) INA		
Net Assets	18 cr	
Patent ①	8 cr	
Patent ②	13 cr	→ why 13 cr ? → As per Ind AS 38, Fair value is considered only if it is obtained from active market. In this ques it is assumed that FV of ₹19 cr is Not obtained from active market.
license	7 cr	
Grant (DGH)	(7 cr)	(39 cr)
GBP (Cap. Rese).	(1 cr)	

* **Concentration Test** → Optional Test

→ whether whole PC is concentrated into one asset.?

Test Met → Not a Busn (It is an Asset acquisition)

Test Not met → May be a Busn [Further Assessment required]

Eg: PC → 340 crores → INA

- Cash (50cr)
- DTA (20 crores)

- ✓ PPE (Bldg 142) - 250 crores
- Cash - 50 crores
- ✓ Furniture - 5 crore.
- DTA - 20 crore.

① Adjusted PC (Effective) = 270 crores.

② Single Major class of Assets → PPE (Bldg 142) = 250 crores.

③ Conduct Test = $\frac{\text{Step 2}}{\text{Step 1}} \times 100$

$= \frac{250}{270} \times 100$

$= 92.59\%$

% for meeting test is NOT defined. (But for exam more than 85% in Substantial)

Test is Met ∴ Not a Busn (It is an Asset Acquisition).

Step ① **Adjusted PC** (PC paid for value adding (core assets)

↳ [Fair value of Gross Assets acquired]

Total PC (60%)

(+) NCI (30%)

(+) FV of Prev held Invst.

(-) Cash } Non core Assets

(-) DTA }

(+) Liab^{y} (Excl. DTL)

⇒ Hint: Step 6 GW/GBP

PC

(+) NCI

(+) Prev held Invst

(-) Asset (Cash & DTA)

(+) Liab. (excl DTL).

Step ② Single Major class of Asset

Step ③ Conduct Test = $\frac{\text{Step 2}}{\text{Step 1}} \times 100.$

Eg (Pg 29.3) LDR

Step ① Adjusted PC (FV of Gross Assets Acquired)

PC (50%)	= 300
(+) Prev held Invst (20%)	= 80
(+) NCI (30%)	= 120
(-) Assets (Cash)	= (200)
(+) Liab (excl. DTL)	= 800
	1100

Step ② Single Major class of Asset (Bldg) = 1000

Step ③ Conduct Concentration Test

$= \frac{1000}{1100} \times 100$

= 90.91% (Test Met)

∴ Not a Busn

∴ It is an Asset Acqn.

(9.) * Other Important Points

(B) Determining what is Part of Business Combination Transaction ?

OFU — Total PC 100 → old Transaction settlement ? (S)

→ Ind AS 103 (PC) ~~100~~ 95

Eg (1)

Msu ltd —Case on 01.04.17→ AK ltd

Case → Fair Value

PC = 100L

old case settle = 10L

Msu ltd acquire = 90L

Ind AS 103 PC.

On 01.04.21 AK ltd (Parent) acquired Msu ltd (Subs).

Case → Cont Liab → F.V = ₹10L.

Eg 2. Contractual Relation → Reacquired Rights → INA (Takeover) @ Fair Value.

On 01.04.X5 AK sold —FR with AK Franchise→ Jeetu [15 crores – 15 yrs]

After 6 yrs

i.e. on 01.04.21 AK ltd acquired Jeetu ltd

PC = 100cr

Jeetu ltd

BS (After 6 yrs)

Franchise 9cr [15cr – 6 yrs Amort] ← C.A.

Franchise Fair Value on 01.04.21 = 16cr

Franchise → Extra charge [16cr – 9cr] = 7cr

→ Cancel (Penalty) Given → 8.5cr

↓ whichever is lower.

Exist? Before Date of Acqn.

Total PC 100cr

→ Pre-Exist? Relation [Franchise] → 7cr (lower of):

① FV (-) C.A

OR

② Penalty

→ Ind AS 103 (PC) = 93 cr (Bif)

Illus 20

C·A of license [2·5L (-) 4yrs Amortn] = 1·5L

F·V 4·5L

(FV - C·A) Excess 3L

OR

Penalty 1·8L

whichever is lower.

Total PC = 100L

Pre-Exist§ Relation → 1·8L

Ind AS 103 (PC) → 98·2L