

5. GOODWILL IMPAIRMENT:

☞ Goodwill arising on business combination is not amortized but it is tested for impairment Annually.

IF GOODWILL IS IMPAIRED

If Goodwill was recognised under
Full Goodwill Method
(i.e. Goodwill relates to Both
Parent and NCI)

If Goodwill was recognised under
Partial Goodwill Method
(i.e. Goodwill relates to Parent
Only)

J.E. for Impairment (in CFS as there is no Goodwill in SFS)

Consolidated O.E. A/c (Parent' Share) Dr.
NCI A/c (NCI's Share) Dr.
To Goodwill A/c

NOTE: Impairment of Goodwill is to be borne in the ratio of Goodwill & NOT in the ratio of % of Holding

J.E. for Impairment (in CFS as there is no Goodwill in SFS)

Consolidated O.E. A/c Dr.
To Goodwill A/c

EXAMPLE

P Ltd Acquired 75% Equity Shares of S Ltd for ₹ 120 lakhs. Total INA of Subsidiary on DOA is ₹ 100 lakhs.

CASE A: NCI is to be calculated based on Fair Value which is ₹ 35 lakhs. Further Goodwill is impaired by ₹ 10 lakhs.

CASE B: NCI is based on PSNA method & Goodwill is impaired by ₹ 10 lakhs.

Calculate Goodwill on Acquisition and also discuss the Treatment of Goodwill.

6. STEP ACQUISITION / MULTIPLE ACQUISITION / ACQUISITION ACHIEVED IN STAGES / ACQUISITION OF INTEREST IN SUBSIDIARIES AT DIFFERENT DATES

☞ If any subsidiary is acquired in lots through multiple acquisition, then consolidation begins from the date of obtaining control (i.e. Goodwill will be computed only on date of control)

ACQUISITION WHERE CONTROL WAS OBTAINED ON LATER ACQUISITION

(1st acquisition-10% 2nd acquisition-60%)

(1st acquisition-25% 2nd acquisition-45%)

Control was obtained after second acquisition and hence all 6 Steps of Acquisition will be followed from the date when control is obtained.

Goodwill will also be calculated only when control is obtained

Investment held before obtaining control will be revalued to its Fair Value in CFS on Date of Acquisition of Control

J·E· to be Passed in CFS

Investment A/c Dr.
To P&L / OCI A/c

NOTE: In SFS the Previously held investment may be at Cost or Fair Value. On Obtaining Control we need not change that value in SFS

FURTHER ACQUISITION WHERE CONTROL ALREADY EXISTED IN PREVIOUS ACQUISITION

(1st acquisition-65% 2nd acquisition-10%)

Goodwill will **NOT** be recomputed or adjusted, as goodwill is computed only on Date of Acquisition of control.

When Parent Acquires Further Investment, NCI's share will be reduced (i.e. NCI will be de-recognised) & Reduction will be done on Pro-rata Basis based on the value of NCI on date of De-recognition of NCI

J·E· In CFS

NCI A/c Dr.

Cons. O·E· (Loss on Acq·) A/c Dr· (B/F)

To Bank A/c

To Cons O·E· (Profit) (B/F)

7. DISPOSAL OF SHARES IN SUBSIDIARYWITHOUT LOSS OF CONTROL

Eg: Stake Before Disposal - 80%

Disposed 15%

Stake After Disposal is 65%

NCI's share will increase by 15% (i.e. we will recognise NCI)

There are two methods to recognise NCI

1. FAIR VALUE METHOD

- Fair Value of NCI on date of disposal is directly given

OR

- INA of subsidiary Including Goodwill (can be taken as Fair Value of Total Subsidiary) (x) % of NCI by which it is increased

2. PSNA Method

- INA of Subsidiary (x) % of NCI by which it is increased

TOTAL NCI

Opening NCI before Disposal

+ NCI Recognised On disposal (as per above)

WITH LOSS OF CONTROL

Eg: Stake Before Disposal - 80%

Disposed 70%

S

As Control is Lost, Parent Entity will -Derecognise NCI, INA of Subsidiary, Goodwill/GBP

- Recognise Proceeds Received, Investment Retained (if any) at Fair Value on Date when control is lost

- Reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind ASs, the amounts recognised in OCI in relation to the subsidiary

(Refer Example 1 Below)

- Balance (If any) will be transferred to P&L

Example 1

X Ltd. has previously recognized in other comprehensive income in relation to a subsidiary

Y Ltd.

i) cumulative exchange differences relating to a foreign operation and ii) revaluation

surplus. Now X Ltd. has sold its entire holding in Y Ltd. and hence has lost control over it. Hence, on loss of control, X Ltd. should reclassify the cumulative exchange differences relating to the foreign operation (that would have been reclassified to profit or loss if the parent had directly disposed that foreign operation) to profit or loss as reclassification adjustment. The revaluation surplus (that would have been transferred directly to retained earnings if the parent had directly disposed the asset) shall be transferred directly to retained earnings

WITHOUT LOSS OF CONTROL

JOURNAL ENTRIES

In SFS

Bank A/c Dr.
P&L (Loss on Disposal) A/c Dr. B/F
 To Investment (Pro Rata) A/c
 To P&L (Profit) A/c - B/F

In CFS

Bank A/c Dr.
Other Equity (Loss) A/c Dr. - B/F
 To NCI A/c
 To Other Equity (Profit) A/c - B/F

WITH LOSS OF CONTROL

JOURNAL ENTRIES

In SFS

Bank A/c Dr.
P&L (Loss on Disposal) A/c Dr.
 To Investment (Pro Rata) A/c
 To P&L (Profit on Disposal) A/c

In CFS

Bank A/c Dr.
Investment A/c Dr. (Retained Portion)
NCI A/c Dr.
GBP A/c Dr.
P&L (Loss) A/c Dr. - B/F
 To INA A/c
 To Goodwill A/c
 To P&L (Profit) - B/F

Note:

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control (i.e. Step Acquisition where control already existed in previous acquisition or Disposal without loss of control) of the subsidiary are equity transactions (i.e.

transactions with owners in their capacity as owners).

EXAMPLE 2

M Ltd. holds 70% stake in N Ltd. Now if M Ltd. purchases additional 10% stake in N Ltd. or sells 10% of its existing stake (i.e. without losing control) then it is an equity transaction.

When the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

Further, it must be noted that due to such changes in controlling and non-controlling interests, no changes are made to subsidiary's assets (including goodwill) and liabilities. It is again emphasized that no gain or loss is recognized in such transactions.

EXAMPLE 3

P Ltd disposed 70% investment held in S Ltd (Out of 80%) for ₹ 70 lakhs. INA on Date of disposal was ₹ 75 lakhs. NCI was 15 lakhs. Fair Value of Investment Retained was ₹ 10 lakhs. Goodwill was ₹ 25 lakhs. Pass Journal Entries (in CFS) for Disposal with Loss of Control.

7.1 LOSS OF CONTROL OF A SUBSIDIARY IN TWO OR MORE ARRANGEMENTS (TRANSACTIONS)

☞ A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction.

The above requirement is relevant because Ind AS 110 requires an entity to record gain / loss on disposal of investment in subsidiary in profit or loss only when the control is lost.

EXAMPLE

MN Ltd. was holding 80% stake in UV Ltd. Now, MN Ltd. wants to dispose its entire

holding in UV Ltd. It can do it in following ways:

i) **Option 1:**

Sale entire 80% stake in single transaction. In this case, the entire gain / loss on sale of 80% stake would be recognised in profit or loss.

ii) **Option 2:**

Sale 25% stake in one transaction and sale the remaining 55% stake in another transaction. In this case, the gain / loss on sale of 25% stake would be recognised directly in equity since it will be sale of stake without loss of control. When the remaining 55% stake is sold then the gain / loss pertaining to that stake will be recognised in profit or loss.

☞ In determining whether to account for the arrangements as a single transaction, a parent shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the parent should account for the multiple arrangements as a single transaction:

i) They are entered into at the same time or in contemplation of each other

ii) They form a single transaction designed to achieve an overall commercial effect

iii) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement

iv) One arrangement considered on its own is not economically justified, unless it is considered together with other arrangements. (e.g. when a disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market)