



3

IND AS 103 BUSINESS COMBINATION

FLOW OF THIS STANDARD	
Unit – I – Introduction	
Part – I - Meaning of Business Combination	
Concept – 1	Meaning of Business 1. Definition of business 2. Element of business
Concept – 2	Definition of Business Combination Insights of definition
Concept – 3	How to Identify a business combination 1. Steps to check 2. Concentration test 3. Business assessment test 4. Asset acquisition
Part – II– Basics of Business Combination	
Concept – 4	Types of business combination
Concept – 5	Methods of accounting
Concept – 6	Accounting for consolidation as on date of acquisition
Concept – 7	Things to study
Unit – II – Acquisition Method	
Concept – 8	Basics of acquisition method and steps in acquisition method
Concept – 9	Identify the acquirer
Concept – 10	Identify Date of acquisition
Concept – 11	Net Assets Acquired
Concept – 12	Purchase Consideration
Concept – 13	Goodwill or gain on bargain purchase
Concept – 14	Accounting in the books of legal acquirer on DOA
Unit – III – Reverse Acquisition	
Concept – 15	Basics
Concept – 16	Rules
Concept – 17	Types
Concept – 18	Steps
Unit – IV – Common Control	
Concept – 19	Basics
Concept – 20	Pooling of Interest Method
Concept – 21	Merging of two Subsidiaries
Unit – V – Spin Off	
Concept – 22	Basics of Demerger
Concept – 23	Types of demerger



Concept – 24	Accounting for demerger
Concept – 25	Basics of sale of division
Concept – 26	Accounting for sale of division
Unit – VI– First Time Adoption	
Concept – 27	Application
Concept – 28	Recognition and Measurement principles

This standard deals with Mergers, Acquisition and Demerger of corporate entities

UNIT - I INTRODUCTION

PART – I – MEANING OF BUSINESS COMBINATION

CONCEPT – 1 BUSINESS

1 Definition of Business

An integrated Set of Activities and Assets that is capable of being Conducted and Managed for the purpose of

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

2 Elements of Business

Insight

- **Inputs** : Non-current assets including intangible assets or rights to use non current asset, intellectual property, and the ability to obtain access to necessary materials or rights and skilled employee. (does not include sales workforce, D group staff which can be easily replicated)
- **Process** : Any system, standard, protocol, convention or rule that when applied to an input(s), creates or has ability to create outputs



- **Ability to create** : means development stage example – Start ups
- Accounting, Billing, payroll and other administration system are not process to create output
- **Investment Property**

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

- Acquisition of a shell company does not constitute business hence goodwill cannot be recognised. Rather difference between Net Assets Acquired and Purchase Consideration would be regarded as “Preliminary Expenses”
- If goodwill is present it is presumed to be business. However a business need not have goodwill.
- In evaluating Business, evaluation is from market participant point of view



CONCEPT – 2 BUSINESS COMBINATION

2 Definition of Business Combination

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

Insight

1. Acquirer

The Entity which obtains control of one or more Acquiree (business).

2. Control

Means as having more than 50% shareholding and power to compose board of director

Shareholding includes Potential Voting Rights (means options which give arise to shares in future).

→ If Exercise Price to buy shares < Market price of the shares, then such options should be considered as Potential Rights.

→ If Exercise Price to buy shares > Market price of the shares, then such options should not be considered as Potential Rights.

3. Obtains

Means getting such a control by payment of Purchase Consideration in the form of cash, asset, shares etc Sometimes control can be obtained without PC !!!!!

4. Acquiree

Means business of which acquirer obtains control. Acquiree may not be an entity

**TUTORIAL NOTE**

From the definition of Business Combination, it very clear that for a business combination, the control by one entity of another entity arises when

- ☒ Acquirer acquires (takes over) net assets of a business (Amalgamation / Absorption)
OR
- ☒ Majority stake in evidencing substantive control (Subsidiary)

BUSINESS**CASE STUDY - 1**

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

Required

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

ANALYSIS

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

**CASE STUDY - 2**

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

ANALYSIS

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

POTENTIAL VOTING RIGHTS**CASE STUDY - 3**

Company P Ltd., a manufacturer of textile products, acquires 40,000 of the equity shares of Company X (a manufacturer of complementary products) out of 1,00,000 shares in issue. As part of the same agreement, Company P purchases an option to acquire an additional 25,000 shares. The option is exercisable at any time in the next 12 months. The exercise price includes a small premium to the market price at the transaction date. After the above transaction, the shareholdings of Company P's two other original shareholders are 35,000 and 25,000. Each of these shareholders also has currently exercisable options to acquire 2,000 additional shares.

ANALYSIS

In assessing whether it has obtained control over Company X, Company P should consider not only the 40,000 shares it owns but also its option to acquire another 25,000 shares (a so-called potential voting right). In this assessment, the specific terms and conditions of the option agreement and other factors are considered:

- ❖ The options are currently exercisable and there are no other required conditions before such options can be exercised



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

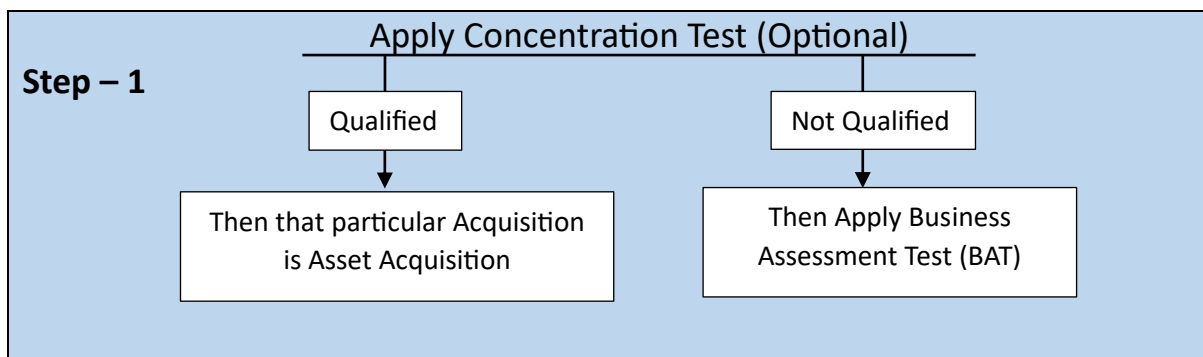
By considering all the above factors, Company P concludes that with the acquisition of the 40,000 shares together with the potential voting rights, it has obtained control of Company X.

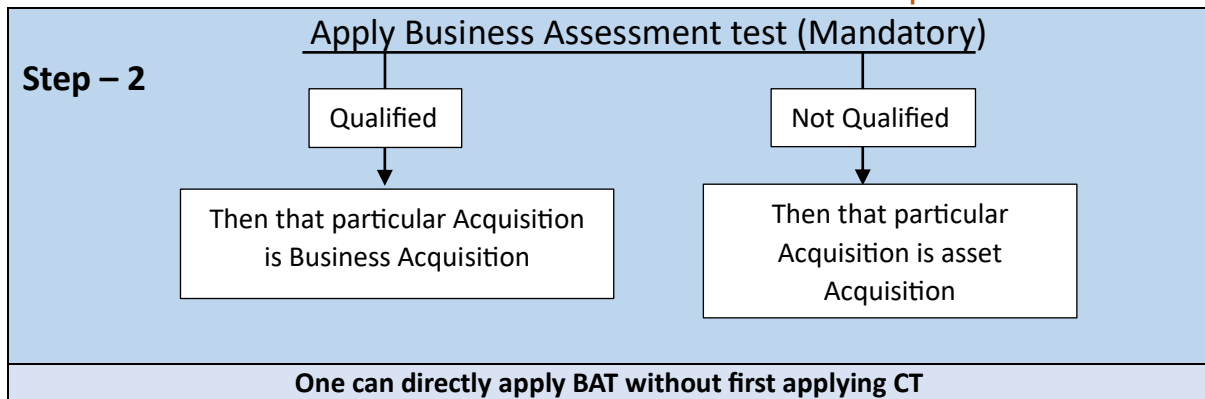
CONCEPT – 3

HOW TO IDENTIFY A BUSINESS COMBINATION

How to identify that a particular “Set of Activities (SOA) and Assets” acquired by an Acquirer is a Business Combination

1 Steps to check





2 Concentration test

Step – 1	Calculation of Fair Value of Consideration	XXX
	Fair Value of previously Acquired Interest (Stake) before date of attaining control	XXX
	Consideration being transferred to acquire SOA as on date of attaining control	XXX
	NCI	XXX
		XXX
Step - 2	Calculation of Fair Value of Assets Acquired	
	Fair Value of consideration as per step – 1	XXX
	Add : Fair Value of liabilities assumed (do not include DTL) XXX	XXX
	Less : Cash and cash equivalent acquired	XXX
		XXX
Step – 3	Identify Single Identifiable Asset or similar group of identifiable assets (α) Concentration Test = FV of α _____ n x 100 = _____ % FV of assets acquired (Step – 2) If % exceeds 90% then CT is qualified.	

NCI implies

If X Ltd acquires 70% shares of Y Ltd, then in case of business combination X Ltd acquires control over Y Ltd, BUT both X Ltd and Y Ltd will exist as separate entities.

In such a situation X Ltd becomes a Parent company or Reporting Entity by preparing Consolidated Financial Statements.

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

NCI is valued at

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

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

**Ind AS – 103 is not applicable on Joint Control****Example**

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

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

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.

Question # 3

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



3 Business Assessment Test

1st Check – <ul style="list-style-type: none"> In SOA acquired there should be minimum “1 Input + Substantive process” Substantive Process implies SOA acquired <ul style="list-style-type: none"> a) should create output OR b) has ability to create output 	
2nd Check -	
SOA acquired does not produce any output as on DOA	SOA acquired produce any output as on DOA
Check –	Check –
Process Acquired Is critical to “ ability to create output ” Input Acquired Is Organised, Special and Skilled workforce along with resources needed by such workforce which has ability to create output	Process Acquired is critical to “ continue producing output ” Plus Input Acquired Is Organised, Special and Skilled workforce along with resources needed by such workforce which has ability to continue producing output OR Process Acquired Is Unique/rare and cannot be replaced easily as it and cannot be created unless substantial time and cost is cost is needed
If these checks are satisfied then consider such SOA and input acquire as Business else Asset Acquisition	
Acquisition of Asset or Group of Asset does not constitute business	
Ind AS 103 specifies that if group of assets are acquired, which it is not a business, then purchase consideration to acquire such group of assets should be allocated in ratio of their fair value. In this case goodwill or capital reserve will not arise.	

Question # 4
 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.



PART – II – BASICS OF BUSINESS COMBINATION

CONCEPT – 4

TYPES OF BUSINESS COMBINATION

REFER HANDWRITTEN NOTES OF CLASS

CONCEPT – 5

METHODS OF ACCOUNTING

Method of Accounting as provided by Ind AS 103 is ONE and ONLY Acquisition Method

Important Note:

- Under Acquisition method this standard also specifies Consolidation Accounting as per Ind AS 110 as on DOA
- In certain case Reverse Acquisition Method is also to be followed
- If business combination qualifies as Common Control transaction (CCT) as Specified in Appendix C of Ind AS 103, then Pooling of Interest method is to be applied

Here first we will understand basics of Acquisition Method and Consolidation accounting, referring to capsule given classroom, there after one by one in detail we will understand all the methods.

CONCEPT – 6

**ACCOUNTING FOR CONSOLIDATION
AS ON DOA**

REFER HANDWRITTEN NOTES OF CLASS

**CONCEPT – 7****THINGS TO STUDY**

This chapter for Study purpose has been divided into 5 units other than
UNIT – 1 – Introduction (already discussed above)

UNIT – II	Acquisition Method
UNIT – III	Reverse Acquisition
UNIT – IV	Common Control Transaction
UNIT – V	Spin off (Demerger and Sale of Division)
UNIT – VI	First time Adoption as per Ind AS - 101

UNIT - II**ACQUISITION METHOD****CONCEPT – 8****SOME BASICS**

Whenever Accounting Acquirer obtains control over Acquiree then, “ACQUISITION METHOD” is to be applied

Under Acquisition Method following steps are to be applied

STEP – 1	Identify the Acquirer (Accounting Acquirer)
STEP – 2	Identify the Acquisition Date
STEP – 3	Calculate Net Asset Acquired (NAA)
STEP – 4	Calculate Purchase Consideration (PC)
STEP – 5	Calculate Goodwill or Gain on Bargain Purchase
STEP – 6	Accounting in the books of Acquirer - Recognition
STEP – 7	Balance sheet as on Date of Acquisition

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



CONCEPT – 9
IDENTIFY THE ACQUIRER

In the eyes of Law, Acquirer is an entity which pays PC but in eyes of Ind AS, Acquirer is entity which has control over the entity after business combination.

1 Accounting Acquirer – (Investor)

An entity which has majority of voting rights (control) in the resulting company (Investee).

2 Legal Acquirer

An entity which discharges PC.

3 Accounting Acquirer and Legal Acquirer may be different.

(Reverse Acquisition dealt later)

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.



Identify the Accounting Acquirer in each of the above situations

CASE STUDY - 4 [RTP November 2020]

Veera Limited and Zeera Limited are both in the business of manufacturing and selling of Lubricant. Veera Limited and Zeera Limited shareholders agree to join forces to benefit from lower delivery and distribution costs. The business combination is carried out by setting up a new entity called Meera Limited that issues 100 shares to Veera Limited's shareholders and 50 shares to Zeera Limited's shareholders in exchange for the transfer of the shares in those entities. The number of shares reflects the relative fair values of the entities before the combination. Also respective company's shareholders gets the voting rights in Meera Limited based on their respective shareholding.

Determine the acquirer by applying the principles of Ind AS 103 'Business Combinations'.

Solution:

As per para B15 of Ind AS 103, in a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree. Based on above mentioned para, acquirer shall be either of the combining entities (i.e. Veera Limited or Zeera Limited), whose owners as a Group retain or receive the largest portion of the voting rights in the combined entity.

Hence, in the above scenario Veera Limited's shareholder gets 66.67% share ($100 / 150 \times 100$) and Zeera Limited's shareholder gets 33.33% share in Meera Limited.

Hence, Veera Limited is acquirer as per the principles of Ind AS 103.

CONCEPT – 10

IDENTIFY THE ACQUISITION DATE

1 Which is Actual Acquisition Date

- A. The date on which control (> 50% VOTING RIGHTS) is obtained by Accounting Acquirer
- B. The date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquire

2 Other important Points

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



ACQUISITION DATE

CASE STUDY - 5

On April 1 Company X agrees to acquire the share of Company B in an all equity deal. As per the binding agreement Company X will get the effective control on 1 April however the consideration will be paid only when the shareholders' approval is received. The shareholders meeting is scheduled to happen on 30 April. If the shareholder approval is not received for issue of new shares, then the consideration will be settled in cash.

What is the acquisition date?

ANALYSIS

The acquisition date in the above example is 1 April. In the above scenario even if the shareholder don't approve the shares consideration can be settled through payment of cash.

CASE STUDY - 6

Can an acquiring entity account for a business combination based on a signed non-binding letter of intent where the exchange of consideration and other conditions are expected to be completed with 2 months?

ANALYSIS

No. as per the requirement of the standard a non-binding Letter of Intent (LOI) does not effectively transfer control and hence this cannot be considered as the basis for determining the acquisition date.

CASE STUDY - 7

ABC Ltd. acquired all the shares of XYZ Ltd. The negotiations had commenced on 1st January, 20X1 and the agreement was finalised on 1st March, 20X1. While ABC Ltd. obtains the power to control XYZ Ltd.'s operations on 1st March, 20X1, the agreement states that the acquisition is effective from 1st January, 20X1 and that ABC Ltd. is entitled to all profits after that date. In addition, the purchase price is based on XYZ Ltd.'s net asset position as at 1st January, 20X1. What is the date of acquisition?

ANALYSIS

In this case, notwithstanding that the price is based on the net assets at 1st January, 20X1 and that XYZ Ltd.'s shareholders do not receive any dividends after that date, the date of acquisition for accounting purposes will be 1st March, 20X1. It is only on 1st March, 20X1 and not 1st January, 20X1, that ABC Ltd. has the power to direct the relevant activities of XYZ Ltd. so as to affect its returns from its involvement with XYZ Ltd. Accordingly, the date of acquisition is 1st March, 20X1.

CASELET - 8

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



shareholder vote. On 2 June 2012 both the companies jointly made a press release about the proposed merger.

On 10 June 2012, the shareholders of Ram Ltd approved the terms of the merger.

On 15 June, the shares were allotted to the shareholders of Ram Ltd.

The market price of the shares of Shyam Ltd was as follows:

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

What is the acquisition date and what is purchase consideration in the above scenario?

ANALYSIS

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

CASELET - 9

ABC Ltd. and XYZ Ltd. are manufacturers of rubber components for a particular type of equipment. ABC Ltd. makes a bid for XYZ Ltd.'s business and the Competition Commission of India (CCI) announces that the proposed transaction is to be scrutinised to ensure that competition laws are not breached. Even though the contracts are made subject to the approval of the CCI, ABC Ltd. and XYZ Ltd. mutually agree the terms of the acquisition and the purchase price before competition authority clearance is obtained. Can the acquisition date in this situation be the date on which ABC Ltd. and XYZ Ltd. agree the terms even though the approval of CCI is awaited (Assume that the approval of CCI is substantive)?

ANALYSIS

Since CCI approval is a substantive approval for ABC Ltd. to acquire control of XYZ Ltd.'s operations, the date of acquisition cannot be earlier than the date on which approval is obtained from CCI. This is pertinent given that the approval from CCI is considered to be a substantive process and accordingly, the acquisition is considered to be completed only on receipt of such approval.



CONCEPT – 11

CALCULATION OF NET ASSET

1 Statement of Net Assets Acquired

Identifiable Assets acquired at FV as on DOA	XXX
Add : DTA - Refer note - 1 XXX	XXX
Add : Re-Acquired Rights - Refer note - 2 XXX	XXX
Add : Indemnification Asset - Refer note - 3 XXX	XXX
Less : DTL - Refer note - 1	(XXX)
Less : Liabilities assumed at FV as on DOA (XXX)	(XXX)
Less : FV of Contingent Liabilities as on DOA (XXX)	(XXX)
Less : FV of post retirement Employee Benefits (XXX)	(XXX)
NA of Acquiree as on DOA XXX	XXX
BEWARE OF MESUREMENT PRINCIPLE – REFER NOTE - 4	XXX

2 DTA AND DTL

Difference between book values of NA acquired as on DOA and FV of NA acquired as on DOA gives rise to creation of DTA and DTL as per Ind AS 12 Refer Handwritten Class Notes for further clarification

Suppose

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

❖ If Net Difference was deductible then, $\text{Difference} \times \text{Tax Rate} = \text{DTA}$

**3** Re-acquired Rights (Intangible Asset)**Buy Back of franchise**

When a franchisee wants to get out of the business, the franchise contract includes provisions, granting the franchisor the right to buy the franchise back. The franchisor may want to take over a profitable location for itself.

As per Ind AS 103

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

REACQUIRED RIGHTS**CASE STUDY - 10**

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

ANALYSIS

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

CASE STUDY - 11

ABC Ltd. acquires PQR Ltd. for a consideration of ₹1 crore. Four years ago, ABC Ltd. had granted a ten-year license allowing PQR Ltd. to operate in Europe. The cost of the license was ₹2,50,000. The contract allows either party to terminate the franchise at a cost of the unexpired initial fee plus 20%. At the date of acquisition, the settlement amount is ₹1,80,000 [(₹2,50,000 × 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?

ANALYSIS

In the instant case,

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



- ₹.3,00,000 i.e difference between amount payable ₹.4,50,000, and the carrying value (or the unamortised value) that it was granted for, ₹.1,50,000 (2,50,000 X 6/10).
- ₹.1,80,000, which is the amount that ABC Ltd. would have to pay to terminate the right at the date of acquisition.
The loss on settlement of the contract is ₹.1,80,000. Therefore, out of the ₹.1 crore paid, ₹.98.2 lakh is accounted for as consideration for the business combination and ₹.1,80,000 is accounted for separately as a settlement loss on the re-acquired right.

4 Indemnification Asset

If, FV of Contingent liability assumed > book value of liability and if, difference is guaranteed by Acquiree, then such difference is treated as Indemnification Asset.

- It should be accounted (recognised), only if it is collectable
- It should be reassessed though PoL, with change in Contingent Liability

INDEMNIFICATION ASSET

CASE STUDY - 12

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.

ANALYSIS

In the current scenario, ABC Ltd. measures the identifiable liability of entity PQR Ltd. At ₹ 70 lakh and also recognises a corresponding indemnification asset of ₹ 70 lakhs on its consolidated balance sheet. The net impact on goodwill from the recognition of the contingent liability and associated indemnification asset is nil.

However, in the case where the liability's fair value is more than ₹ 1 crore i.e. ₹ 1.2 crore, the indemnification asset will be limited to ₹ 1 crore only

CASE STUDY - 13

ABC Ltd. pays ₹ 50 crore to acquire PQR Ltd. from XYZ Ltd. PQR Ltd. Manufactured products containing fiber glass and has been named in 10 class actions concerning the effects of these fiber glass. XYZ Ltd. agrees to indemnify ABC Ltd. for the adverse results of any court cases up to an amount of ₹ 10 crore. The class actions have not specified amounts of damages and past experience suggests that claims may be up to ₹ 1 crore each, but that they are often settled for small amounts.

ABC Ltd. makes an assessment of the court cases and decides that due to the potential variance in outcomes, the contingent liability cannot be measured reliably and accordingly no amount is recognised in respect of the court cases. How should indemnification asset be accounted for?



ANALYSIS

Since no liability is recognised in the given case, ABC Ltd. will also not recognise an indemnification asset as part of the business combination accounting

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.

5

Measurement Period

- A. If at the time acquiring of assets and liabilities, FV of such assets and liabilities is not available as on DOA due to lack of information, then the Acquirer shall report in its Financial Statements at Provisional Amounts of the item for which the accounting is incomplete
- B. During the measurement period, the acquirer shall adjust the provisional values of assets and liabilities to its actual fair value and recognise additional assets and liabilities and adjust corresponding GW or CR
- C. Measurement period is lower of
 - 12 months from the DOA
 - Date on which facts and information required for fair value are available

Assets and Liabilities were measured at provisional values as on DOA due to lack of information Acquirer shall reported in its Financial Statements at Provisional Amounts Additional information is received after DOA		
Within 1 year of DOA		After 1 year of DOA
Adjust GW or CR	Adjust through P/L	Adjust through P/L

Question # 7

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



CONCEPT – 12
PURCHASE CONSIDERATION

1 Statement showing calculation of Purchase Consideration

Acquisition date FV of Assets given by acquirer - Refer note - 1 (difference between BV and FV is transferred to P/L)	XXX
Add : Acquisition date FV of contingent consideration - Refer note – 2 (conditional)	XXX
Add : Acquisition date PV of deferred consideration - Refer note - 3 (unconditional but will be paid later)	XXX
Add : Acquisition date FV of Equity Instrument issued Swap Ratio (SR) x No. of ES of Acquiree x Issue price If, SR is not given then, SR = FV of ES of (Acquiree) / FV of ES of (Acquirer) If, FV of ES is not given then, FV of ES = FV of Net Assets / No. of ES	XXX
Add : Acquisition date FV of share based awards - Refer note - 4 FV of Original Awards x Expired Period Original VP or Revised Vesting Period – whichever is higher	XXX
TOTAL PC	XXX
Add : FV of separate transaction cost – Refer note – 5 (Means amount payable due to pre-existing relationship between acquirer and Acquiree eg. Court case, debtors, creditors)	XXX
Total Amount Payable	XXX

2 Acquisition date FV of Assets given by acquirer

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.

3 (A) - Contingent Consideration

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



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

Question # 10

{MTP – SERIES I – NOV – 2019} {RTP – MAY – 2019}

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.

3 (B) – Contingent Consideration to employees

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

**CASE STUDY - 14**

KKV Ltd acquires a 100% interest in VIVA Ltd, a company owned by a single shareholder who is also the KMP in the Company, for a cash payment of USD 20 million and a 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.

CASE STUDY - 15

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.

- 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.

4**Deferred Consideration**

- Unconditional Consideration, which is part of PC payable at a later date i.e after some years
- Such Deferred consideration should be recorded at its Present value.
- Deferred Consideration should be unwound every year with interest (PorL) till it is paid off.

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?



5 Share Based Awards

Case – 1 – Replacement Award

Acquirer replaces SBP scheme of Acquiree with its own scheme

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

Case – 2 – Non-Replacement Award

Acquirer continues SBP scheme of Acquiree with its own scheme

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

Question # 12

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

Question # 13

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.

**Question # 14**

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?

6 Separate transaction cost

Separate Transaction Cost Implies Cost incurred by Acquirer to settle pre-existing relationship liability with Acquiree

In such a situation

- PC should be reduced by FV of liability as on DOA
- Difference between Carrying Amount and FV liability should be transferred to PorL

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

1. A Ltd is the defendant in a law suit in which company B is a plaintiff. A has recognised a liability in the amount of ₹4 lakh related to suit law suit. A acquired B in a business combination, and pays cash consideration of ₹50 lakh to B's shareholder. The acquisition effectively settles the law suit. The FV of law suit as on the date of acquisition is ₹2.5 lakh.

Answer

Hence we can say

- (a) Gain on settlement of law suit is ₹4 lakh - ₹2.5 lakh = ₹1.5 lakh
- (b) Total PC = ₹50 lakh - ₹2.5 lakh = ₹47.5 lakh

2. Progressive Ltd is being sued by Regressive Ltd for an infringement of its Patent. At 31st March, 20X2, Progressive Ltd recognised a ₹ 10 million liability related to this litigation. On 30th July, 20X2, Progressive Ltd acquired the entire equity of Regressive Ltd for ₹ 500 million. On that date, the estimated fair value of the expected settlement of the litigation is ₹ 20 million.

Answer

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

3. A supplies goods to B at a fixed price under a 10 year contract. The contract contains a clause that permits early termination of the contract by A by paying ₹5 lakh to B. Prior to expiration of contract, entity A acquires 100% of equity of B for ₹50 lakh. FV of the contract is estimated to be ₹10 lakh, of which ₹6 lakh relates to unfavourable aspect of the contract to A since market value of similar contracts are lower.



Answer

- (a) Loss on Settlement amount = ₹5 lac – 0 = ₹5 lac
 (b) Total PC = ₹50 lakh - ₹5 lakh

CONCEPT – 13
GOODWILL OR GAIN ON BARGAIN PURCHASE

1 Statement of calculation of goodwill or gain on bargain purchase

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

Question # 15

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

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

**Question # 16**

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

Question # 17**[RTP – MAY – 2018]**

On 1 April 20X1, Alpha Ltd. acquires 80 percent of the equity interest of Beta Pvt. Ltd. in exchange for cash of ₹ 300. Due to legal compulsion, Beta Pvt. Ltd. had to dispose of their investments by a 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 an 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?

Question # 18**[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 1st July, 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 acquisition date.

Question # 19

On 1ST January, 20X1, A Ltd. acquires 80 per cent of the equity interests of B Ltd. in exchange for cash of ₹15 crore. The former owners of B Ltd. were required to dispose 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?

Question # 20

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

Question # 21

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.

Question # 22

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.

CONCEPT – 14

ACCOUNTING IN THE BOOKS OF LEGAL ACQUIRER

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

Net Assets Acquired of Acquiree at FV	Sundry Assets A/c	Dr	XXX
	DTA A/c	Dr	XXX
	To DTL A/c		XXX
	To Sundry Liabilities A/c		XXX
	To Investments already held A/c		XXX
	To Vendor A/c		XXX
	(being sundry assets and liabilities acquired at FV) Difference in the above entry is GW or CR		
Discharge PC	Vendor A/c	Dr	PC
	Separate transaction cost A/c	Dr	XXX
	To SBP Reserve A/c		XXX
	To Mode of Payment of PC A/c		XXX
Unwinding of Deferred Consideration	Finance Charge A/c	Dr	XXX
	To Deferred Consideration A/c		XXX
Other miscellaneous entries	❖ Write of separate transaction cost to P/L		
	❖ Write off any acquisition cost to issue debt to P/L		
	❖ Write off finance charge to P/L		
	❖ Revalue (difference between FV and BV) investment already held earlier through P/L		

2 Acquisition Related Cost

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

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



ACQUISITION RELATE ASSET

CASE STUDY - 19

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

ANALYSIS

- As per Ind AS 103, the acquisition-related costs incurred by an acquirer to effect a business combination are not part of the consideration transferred to PorL
- The stamp duty payable for transfer of assets in connection with the business combination is an acquisition-related cost as described under paragraph 53 of Ind AS 103.
- Stamp duty does not increase the future economic benefits from the net assets comprising the business (which would be recognised at fair value) and hence cannot be capitalised.
- Accordingly, stamp duty incurred in relation to land acquired as part of a business combination transaction are required to be recognised as an expense in the period in which the acquisition is completed.

CASE STUDY - 20

ABC Ltd. acquires PQR Ltd. on 30th June, 20X1. The assets acquired from PQR Ltd. include an intangible asset that comprises wireless spectrum license. For this intangible asset, ABC Ltd. is required to make an additional one-time payment to the regulator in PQR's jurisdiction in order for the rights to be transferred for its use. Whether such additional payment to the regulator is an acquisition-related cost?

ANALYSIS

- The payment to the regulator represents a transaction cost and will be regarded as acquisition related cost incurred to effect the business combination. Applying the requirements of para 53 of Ind AS 103, it should be expensed as it is incurred.
- Transfer of rights in the instant case cannot be construed to be separate from the business combination because the transfer of the rights to ABC Ltd. is an integral part of the business combination itself.
- It may be noted that had the right been acquired separately (i.e. not as part of business combination), the transaction cost is required to be capitalised as part of the intangible asset as per the requirements of Ind AS 38, Intangible Assets.

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

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
 - (b) 2 shares of ₹ 10 each for every 5 ES held, FV of ₹12 to shareholders of B Ltd
 - (c) ₹ 5,00,000 will be paid to promoters after 3 year Discounting rate 8%
 - (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
 - (e) One court case between A Ltd and B Ltd will now be withdrawn. A Ltd made a provision for ₹ 40,000 for damages. FV of such damages on 1.8.2017 is ₹ 90,000
 - (f) B Ltd had share based awards whose FV on 1.8.2017 was ₹ 3,00,000 with 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
5. Acquisition cost ₹ 1,00,000 paid by A Ltd

Question # 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:

- Determine whether transaction should be accounted as asset acquisition or business combination.
- Calculate Goodwill / Bargain Purchase due to the above acquisition.
- Pass necessary journal entities in the books of Mini Limited as per Ind AS 103 and prepare balance sheet as on date of acquisition.
- 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.

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

Question # 25

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

	P	D
Property, Plant and Equipment	300	5000
Investments	400	100
Current Asset		
Inventory	250	150
Financial asset	400	230
Trade receivable	450	300
Bank	200	100
	2000	1380
Equity share capital of ₹10	500	400
Reserves and surplus	730	180
OCI	80	45
Non-Current 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

- P acquired 70% of D on 1.4.2001 by issuing its own shares in the ratio 1ES for every 2ES. FV of ES of P is ₹40
- The FV exercise resulted in following
 - PPE FV as on 1.4.2001 - ₹ 350 lakhs
 - 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
 - P agreed to pay one of the founder shareholder ₹20 lakh if he stays with the company for two years after acquisition
 - 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
 - D had pending law suit with a customer who had made claim of ₹ 50. Management reliably estimated FV of the liability to be ₹ 5
 - 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



Question # 26

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

Question # 20

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:

- 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.
- 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.
- 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	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.
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.

- 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.
- ₹ 1 crore represents the acquisition date fair value of the indemnification undertaking.
- 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
As on January, 2007	₹ 395 per share
As on 31st March, 2007	₹ 420 per share
14. On 31st May, 2007, H Ltd. learned that certain customer 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
6. 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?



Question # 28

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

For the above Block, Company X, Y & Z has entered into unincorporated Joint Venture. Company Y is the Operator of the Block AWM/01. Company X & Company Z are the Joint Operators. Company Y incurs all the expenditure on behalf of Joint Venture and raise cash call to Company X & Company Z at each month end in respect of their share of expenditure incurred in Joint Venture. All the manpower and requisite 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) has issued notice to company Z for withdrawal of their participating right from 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

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



UNIT - III
REVERSE ACQUISITION

CONCEPT – 15

SOME BASICS OF REVERSE ACQUISITION

1. It means where legal acquirer is different from accounting acquirer.
2. Accounting Acquirer is the entity which has more shareholding percentage in combined entity
3. Legal Acquirer is the entity which issues shares to Acquiree Company to take over the business

CONCEPT – 16

RULES OF REVERSE ACQUISITION

1. PC should flow to only Accounting Acquiree
2. Accounting Acquirer's Assets, Liabilities, Share capital and Reserves should be recorded in Legal Acquirer books at Book Value
3. Accounting Acquiree's Assets, Liabilities and PC should be recorded in Legal Acquirer books at Fair Value, difference should be transferred to Goodwill or Capital Reserve

CONCEPT – 17

TYPES OF REVERSE ACQUISITION

Reverse acquisition can be of two types

- Amalgamation of two companies
- Absorption



CONCEPT – 18
STEPS OF REVERSE ACQUISITION

STEPS – 1	Identify Accounting Acquirer <ul style="list-style-type: none"> • Legal Acquirer is the entity which is takes over the business • Accounting Acquirer is the entity which has more shareholding percentage in combined entity 																																																				
STEPS – 2	Calculate FV of shares based on FV of entitie $FV = \frac{FV \text{ of Net Asset}}{\text{No. of Equity shares}}$																																																				
STEPS – 3	Calculate PC <ul style="list-style-type: none"> • No. of shares to be issued = $\frac{FV \text{ of ES of Acquiree} \times \text{No. of ES of Acquiree}}{FV \text{ of Shares of Acquirer}}$ • PC = No. of shares to be issued \times FV of ES of Acquirer 																																																				
STEPS – 4	Accounting in the books of Legal Acquirer (means Accounting Acquiree) 1. Close balance sheet in its books at Book Value <table style="margin-left: 40px; border-collapse: collapse;"> <tr> <td style="padding-right: 20px;">Share Capital A/c</td> <td style="padding-right: 20px;">Dr</td> <td style="padding-right: 20px;">XXX</td> <td></td> </tr> <tr> <td>Reserves A/c</td> <td>Dr</td> <td>XXX</td> <td></td> </tr> <tr> <td>Liabilities A/c</td> <td>Dr</td> <td>XXX</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">XXX XXX</td> </tr> </table> <p style="margin-left: 40px;">Above entry will be passed only in questions is of absorption.</p> <p style="margin-left: 40px;">Pass Acquisition entries given below, whether amalgamation or absorption.</p> 2. Takeover of Assets, liabilities and Share Capital of Acquirer at book value <table style="margin-left: 40px; border-collapse: collapse;"> <tr> <td style="padding-right: 20px;">Assets A/c</td> <td style="padding-right: 20px;">Dr</td> <td style="padding-right: 20px;">XXX</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">XXX</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">XXX</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">XXX</td> </tr> </table> 3. Takeover of Assets, liabilities and PC of Acquiree at FV <table style="margin-left: 40px; border-collapse: collapse;"> <tr> <td style="padding-right: 20px;">Assets A/c</td> <td style="padding-right: 20px;">Dr</td> <td style="padding-right: 20px;">XXX</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">XXX</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">XXX</td> </tr> </table> <p style="margin-left: 40px;">(difference is Goodwill or Capital Reserve)</p> 4. Discharge of PC <table style="margin-left: 40px; border-collapse: collapse;"> <tr> <td style="padding-right: 20px;">Vendor A/c</td> <td style="padding-right: 20px;">Dr</td> <td style="padding-right: 20px;">XXX</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">XXX</td> </tr> </table>	Share Capital A/c	Dr	XXX		Reserves A/c	Dr	XXX		Liabilities A/c	Dr	XXX					XXX XXX	Assets A/c	Dr	XXX					XXX				XXX				XXX	Assets A/c	Dr	XXX					XXX				XXX	Vendor A/c	Dr	XXX					XXX
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Vendor A/c	Dr	XXX																																																			
			XXX																																																		
STEPS – 5	Balance sheet in the books of Legal Acquirer																																																				

**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.

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

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.

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

Question # 33

A0 Ltd and B0 Ltd are amalgamated on and from 1st January 2002. A new company ABO 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

ABO 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 ABO 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

Question # 34

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

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

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

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

UNIT - IV

COMMON CONTROL

CONCEPT – 19

BASIC OF COMMON CONTROL

1 MEANING

Appendix C to Ind AS 103 defines Common Control **Business Combination as a business combination** involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties {group of individuals acting together under a contractual arrangement, having the power to govern its financial and operating policies so as to obtain benefits from its activities} both before and after the business combination, and that **control is not transitory.**

A Business Combination in which all combining entities or businesses are ultimately "controlled" by same parties before and after combination, such transactions are accounted for applying Appendix C to Ind AS 103 by Pooling Interest Method.

**CASE STUDY - 22**

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

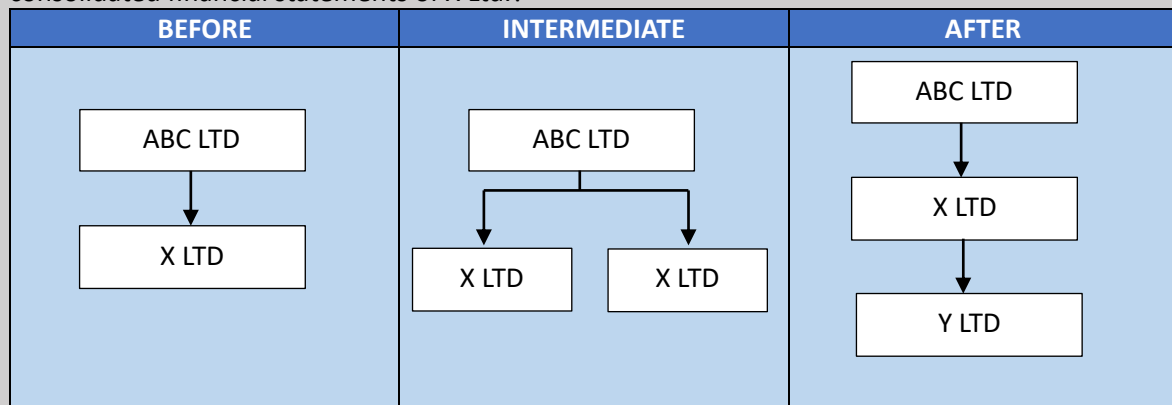
Whether ABC Ltd. and XYZ Ltd. are under common control?

ANALYSIS

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

CASE STUDY - 23

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

**ANALYSIS**

Based on above, if the intermediate step had been omitted and instead X Ltd. Had been the ABC group's vehicle for the acquisition of Y Ltd. - i.e. going straight to the 'after' position - then X Ltd. would have been identified as the acquirer. Considering X Ltd. and Y Ltd. are under common control (with common parent), it might seem that acquisition accounting is not required because of the specific requirement for common control business combination. However, X Ltd. should be identified as the acquirer and should account for its combination with Y Ltd. using acquisition accounting. This is because X Ltd. would have applied acquisition accounting for Y Ltd. if X Ltd. had acquired Y Ltd directly rather than through ABC Ltd. Acquisition accounting cannot be avoided in the financial statements of X Ltd. simply by placing X Ltd. and Y Ltd. under the common control of P shortly before the transaction.

CASE STUDY - 24

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



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

ANALYSIS

Appendix C to Ind AS 103 states that the financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the preceding period in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date.

(a) In accordance with Paragraph 9(iii) above, the entity will be required to restate its financial statements as if the business combination had occurred from the beginning of the preceding period in the financial statements, accordingly in the present case XYZ Ltd will have to restate its comparatives for the financial year 20X8-20X9 as if the acquisition had occurred before 1 April 20X8. Additionally, the results of current year of PQR Ltd will be required to include XYZ's financial statements for the period from 1 April 20X9 to 30 September 20X9.

(b) In accordance with paragraph 9(iii) above, ABC Ltd will have to restate its comparatives for the financial year ended 20X8-20X9 as if the acquisition had occurred on 1 October 20X8, but not earlier. Additionally, the results of current year of DEF Ltd will be required to include the financial statements of ABC Ltd for the period from 1 April 20X9 to 1 October 20X9.

CASE STUDY - 25

Entity A owns 100% equity shares of entity B since 01.04.20X1. Entity A arranges loan funding from a financial institution in a new wholly-owned subsidiary called "Entity C". The loan is used by Entity C to acquire 100% shareholding in entity B, for cash consideration of ₹ 2,00,000. Entity A applies Ind AS 103 to account for common control transactions and Entity C will adopt the same policy. Fair Value of Net identifiable Assets is ₹ 1,50,000 and Carrying Value of Net Identifiable Assets is ₹ 1,00,000.

How will Entity C apply acquisition accounting in its consolidated financial statements?

ANALYSIS

As per para 2 of appendix C of Ind AS 103, Common control business combination means a business combination involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. In the above scenario, the Entity A controls Entity B before and after the acquisition. After acquisition, entity A controls entity B through entity C. As per para 8 of appendix C of Ind AS 103, Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method. As per para 9(i) of appendix C of Ind AS 103, the pooling of interest method is considered to involve the assets and liabilities of the combining entities are reflected at their carrying amounts.

Based on the above analysis, Entity C cannot be the acquirer. Entity A has created Entity C and is the seller, so Entity C has effectively been formed and issued shares to effect the business combination. Entity C is not a business and the transaction between entity B and Entity C is not a business combination. It is a reorganization of entity B. As a result, entity B's assets and liabilities



are included in Entity C consolidated financial statements at their pre-combination carrying amounts without a fair value uplift.

CASE STUDY - 26

Entity A and entity B provide construction services in India. Entity A is owned by a group of individuals, none of whom has control and does not have a collective control agreement. Entity B is owned by a single individual, Mr. Ram. The owners of entities A and B have decided to combine their businesses. The consideration will be settled in shares of entity B. Entity B issues new shares, amounting to 40% of its issued share capital, to its controlling shareholder, Mr. Ram. Mr. Ram then transfers the shares to the owners of entity A in exchange for their interest in entity A. At this point Mr. Ram controls both entities A and B, owning 100% of entity A and 71.42% of entity B. Mr. Ram had a controlling interest in both entity A and entity B before and after the contribution. Is the combination of entities A and B a combination of entities under common control?

ANALYSIS

No. This is not a business combination of entities under common control. Mr. Ram's control of both entities before the business combination was transitory. The substance of the transaction is that entity B has obtained control of entity A. Entity B accounts for this transaction as a business combination under Ind AS 103 using acquisition accounting



CONCEPT – 20
POOLING OF INTEREST METHOD

1 FUNDAMENTALS OF POOLING INTEREST METHOD OF ACCOUNTING

- The Assets and Liabilities of combining entities are shown at their existing carrying amount.
- PC may consist of Securities at nominal Value, Cash or Other Assets
- The balance of retained earnings of transferor is aggregated with corresponding balance appearing in the financial statements of transferee
- The difference between PC and Share Capital of transferor shall be transferred to Capital Reserve

2 IN THE BOOKS OF COMPANY

Sundry Liabilities	A/c Dr	XXX
Reserves	A/c Dr	XXX
Resulting Co.	A/c Dr	PC
To Sundry Assets	A/c	XXX

(being division demerged)
Assets and liabilities are at BV and Difference is transferred to CR

PC received	A/c Dr	XXX
To Resulting Co.	A/c	XXX

(Being PC received)

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

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

3 IN THE BOOKS OF MERGED COMPANY

Sundry Assets	A/c		Dr	XXX	
To Sundry Liabilities			A/c		XXX
To Reserves/Surplus			A/c		XXX

To Vendor A/c PC
(being division demerged)
Assets and liabilities at BV and difference is Capital Reserve

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



CONCEPT – 21

MERGING OF TWO SUBSIDIARIES

1 FUNDAMENTALS OF MERGING OF TWO SUBSIDIARIES

- If two subsidiaries are merged to form a new subsidiary then it is also considered as common control transaction and
- PC = share capital of old subsidiaries
- All assets and liabilities are merged at book value
- Any difference is recognised as capital reserve

Question # 35

A0 Ltd and B0 Ltd are amalgamated on and from 1st January 2002. A new company ABO 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

ABO transfers requisite 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 ABO 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

**Question # 35**

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

**Question # 37**

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 Cloudustries 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.



UNIT – V
DEMERGER AND SALE OF DIVISION

CONCEPT – 22
BASIC OF DEMERGER

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

CONCEPT – 23
TYPES OF DEMERGER

Demerger can be of two types

- Demerger under common control

Suppose:

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

- Demerger without common control – if above condition are not satisfied



CONCEPT – 24
ACCOUNTING OF DEMERGER

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

Question # 38

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

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

- Pass journal entries in the books of Enterprise Ltd
- Prepare balance sheet of Enterprise Ltd after demerger
- Prepare balance sheet of Turnaround Ltd

Question # 39

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	Mobile	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

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



CONCEPT – 25
BASICS OF SALE OF DIVISION

1. Sometimes any company can transfer its division to a new company against consideration of equity shares to resulting company (in case of demerger PC is given to members of resulting company)

2. If Sale of division

- Creates subsidiary (Acquirer becomes subsidiary of Acquiree), then it is considered as a common control transaction and its accounting is as per Pooling Interest Method.
- Does not create subsidiary (Acquirer becomes subsidiary of Acquiree), then it is considered as business acquisition and its accounting is as per Acquisition Method.

CONCEPT – 26
ACCOUNTING FOR SALE OF DIVISION

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

**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

- Two new companies Sunrise Ltd and Khajana Ltd are to be formed, with authorise capital of ₹1000 crore and ₹500 crore respectively
- 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.
- 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).
- Diverse Ltd made a bonus issue in the ratio of 1:1.
- None of the shareholders own more than 50% and are not related to each other.

You are asked to:

- Pass journal entries in the books of Diverse Ltd, and
- Prepare the Balance Sheet of three Companies after the scheme of arrangement.

**ILLUSTRATION # 41**

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

Solution:

No, as per the requirement of Ind AS 103, changes to the net assets are allowed which results from the discovery of a fact which existed on the acquisition date. However, change of facts resulting in recognition and de-recognition of assets and liabilities after the acquisition date will be accounted in accordance with other Ind AS. In the above scenario deferred tax asset was not eligible for recognition on the acquisition date and accordingly the new contract on 31 March 2012 will tantamount to change of estimate and accordingly will not impact the Goodwill amount.

ILLUSTRATION # 42

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

₹ 1 crore towards this liability which is its best estimate of the fair value of the liability to the customer based on the information available at the date of acquisition. In October, 20X1 (within the measurement period), the customer presents additional information as per which ABC Ltd. concludes the fair value of liability on the date of acquisition to be ₹ 2 crore. ABC Ltd. continues to receive and evaluate information related to the claim after October, 20X1. Its evaluation doesn't change till February, 20X2 (i.e. after the measurement period), when it concludes that the fair value of the liability for the claim at the date of acquisition is ₹ 1.9 crore. ABC Ltd. determines that the amount that would be recognised with respect to the claim under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets as at February, 20X2 is ₹ 2.2 crore.

How should the adjustment to the provisional amounts be made in the financial statements during and after the measurement period?

Solution:

The consolidated financial statements of ABC Ltd. for the year ended 31st March, 20X1 should include ₹ 1 crore towards the contingent liability in relation to the customer claim. When the customer presents additional information in support of its claim, the incremental liability of ₹ 1 crore (₹ 2 crore – ₹ 1 crore) will be adjusted as a part of acquisition accounting as it is within the measurement period. In its financial statements for the year ending on 31st March, 20X2, ABC Ltd. will disclose the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, it will disclose that the comparative information for the year ending on 31st March, 20X1 is adjusted retrospectively to increase the fair value of the item of liability at the acquisition date by ₹ 1 crore, resulting in a



corresponding increase in goodwill. The information resulting in the decrease in the estimated fair value of the liability for the claim in February, 20X2 was obtained after the measurement period. Accordingly, the decrease is not recognised as an adjustment to the acquisition accounting. If the amount determined in accordance with Ind AS 37 subsequently exceeds the previous estimate of the fair value of the liability, then ABC Ltd. recognises an increase in the liability. As the change has occurred after the end of the measurement period, the increase in the liability amounting to ₹20 lakh (₹ 2.2 crore– ₹ 2 crore) is recognised in profit or loss.

UNIT – VI**FIRST TIME ADOPTION****CONCEPT – 27****APPLICATION**

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

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

CONCEPT – 28**RECOGNITION & MEASUREMENT****1 RECOGNITION AND MEASUREMENT****SITUATION – 1 - RESTATEMENT OPTION NOT AVAILED – EXEMPTION IS USED.**

In accordance with Ind AS 101, an entity has an option to treat the previous GAAP carrying values, as at the date of transition

Example:

Any adjustments in relation to recognition of contingent consideration on first time adoption shall be made in the statement of profit and loss.

When the exemption is used:

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



1. For example, if the “pooling of interests” method is applied as per AS 14, the balances of assets and liabilities arising therefrom shall be carried forward
2. Another example is regarding the identification of the acquirer – irrespective of the fact that a business combination could have been a reverse acquisition as per Ind AS 103, the accounting adopted in previous GAAP shall be continued

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

Recognition and Measurement Principles:

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

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

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

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



NATO is 3,00,000 Therefore Goodwill is 1,00,000 Which includes Reacquired rights to the tune of 20,000 and this reacquired right should be reduced from goodwill and should be recognised separately	NATO is 3,00,000 (including DOID of 10,000) Therefore Goodwill is 1,00,000 Derecognise DOID of 10,000 thus making NATO of 2,90,000 and PC remaining constant goodwill will become 1,10,000
Point to be noted: Regardless of whether there is any indication that the goodwill may be impaired, the goodwill has to be tested for impairment at the date of transition to Ind AS and any resulting impairment loss is to be recognised in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test is based on conditions at the date of transition to Ind AS.	
Example: 1. If the acquirer had not, in accordance with its previous GAAP, capitalised leases acquired in a past business combination in which acquiree was a lessee, it shall capitalise those leases in its consolidated financial statements, as per Ind AS 116, in its Ind AS Balance Sheet. 2. If the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to Ind AS, the acquirer shall recognise that contingent liability at that date unless Ind AS 37 would prohibit its recognition in the financial statements of the acquiree.	

ILLUSTRATION # 43

A Ltd. acquired B Ltd. in a business combination transaction. A Ltd. agreed to pay certain contingent consideration (liability classified) to B Ltd. As part of its investment in its separate financial statements, A Ltd. did not recognise the said contingent consideration (since it was not considered probable) A Ltd. considered the previous GAAP carrying amounts of investment as its deemed cost on first-time adoption. In that case, does the carrying amount of investment required to be adjusted for this transaction?

Solution:

In accordance with Ind AS 101, an entity has an option to treat the previous GAAP carrying values, as at the date of transition, of investments in subsidiaries, associates and joint ventures as its deemed cost on transition to Ind AS. If such an exemption is adopted, then the carrying values of such investments are not adjusted. Accordingly, any adjustments in relation to recognition of contingent consideration on first time adoption shall be made in the statement of profit and loss.

ILLUSTRATION # 44

A Ltd. has a subsidiary B Ltd. On first time adoption of Ind AS by B Ltd., it availed the optional exemption of not restating its past business combinations. However, A Ltd. in its consolidated financial statements has decided to restate all its past business combinations. Whether the amounts recorded by subsidiary need to be adjusted while preparing the consolidated financial statements of A Ltd. considering that A Ltd. does not avail the business combination exemption? Will the answer be different if the A Ltd. adopts Ind AS after the B Ltd?

Solution:

As per Ind AS 101: "A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS). However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date.



For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X0, it shall restate all business combinations that occurred between 30 June 20X0 and the date of transition to Ind AS, and it shall also apply Ind AS 110 from 30 June 20X0.” Based on the above, if A Ltd. restates past business combinations, it would have to be applied to all business combinations of the group including those by subsidiary B Ltd. for the purpose of Consolidated Financial Statements. Ind AS 101 states, “However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.” Thus, in case where the parent adopts Ind AS later than the subsidiary then it does not change the amounts already recognised by the subsidiary.

ILLUSTRATION # 45

A Ltd. acquired B Ltd. in a business combination transaction. A Ltd. agreed to pay certain contingent consideration (liability classified) to B Ltd. As part of its investment in its separate financial statements, A Ltd. did not recognise the said contingent consideration (since it was not considered probable). A Ltd. considered the previous GAAP carrying amounts of investment as its deemed cost on first-time adoption. In that case, does the carrying amount of investment required to be adjusted for this transaction?

Solution:

In accordance with Ind AS 101, an entity has an option to treat the previous GAAP carrying values, as at the date of transition, of investments in subsidiaries, associates and joint ventures as its deemed cost on transition to Ind AS. If such an exemption is adopted, then the carrying values of such investments are not adjusted. Accordingly, any adjustments in relation to recognition of contingent consideration on first time adoption shall be made in the statement of profit and loss.



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