

D.O.A. → J.E.



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



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

year end

P12      Dr      800  
                            To Prov. for c.c.      800

Note-3 P.V. of Deferred Consideration



(Certain & unconditional)

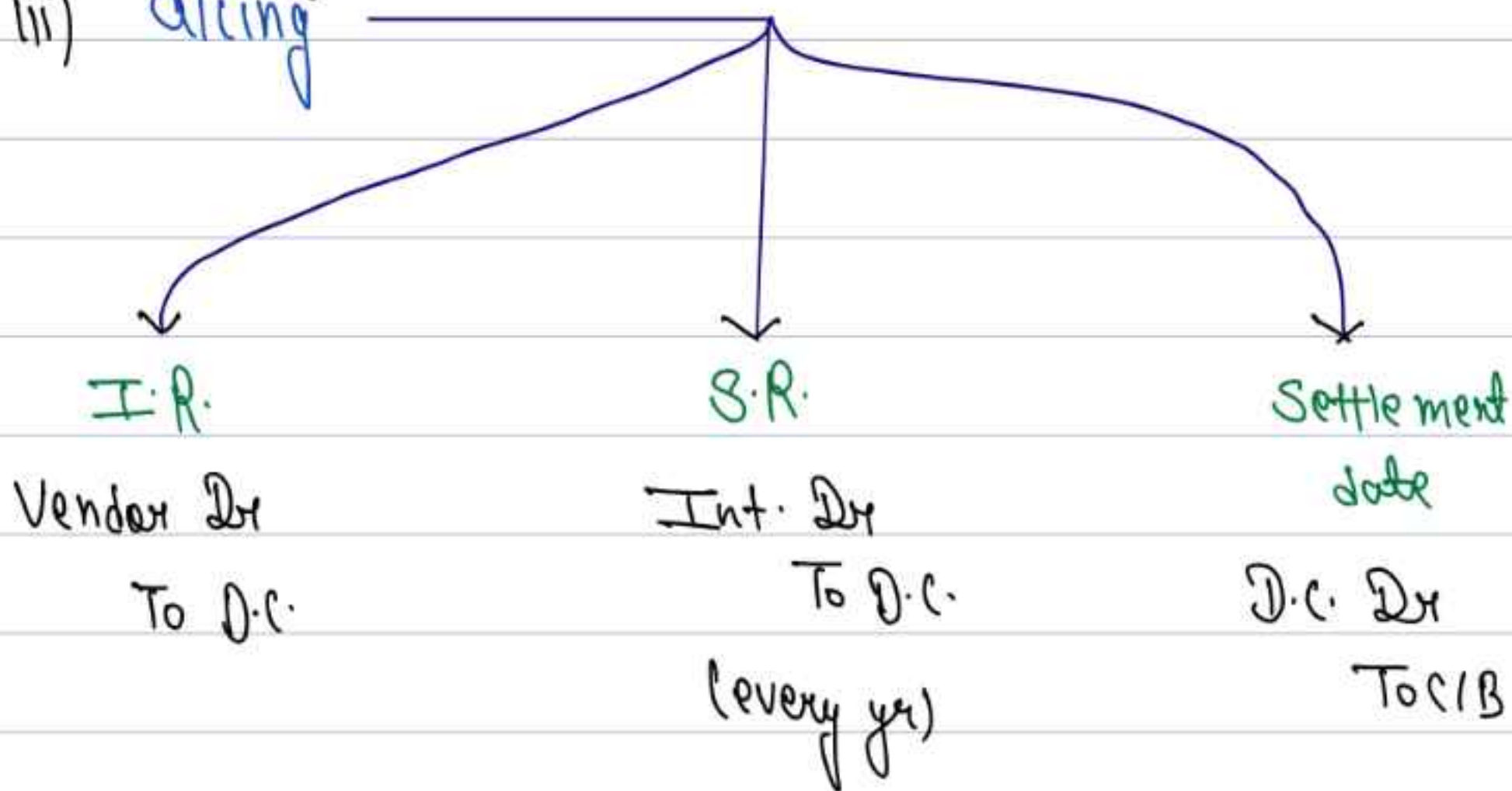
i) it will be paid in fixed amount after fixed period of time

∴ it should be measured at P.V. of amount which is payable & interest should be unwound each year.

ii) it should be recognised as **liability**,  $\therefore$  obligation to pay cash cannot be avoided by entity.



iii) **Accounting**



### 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?

**Sol<sup>n</sup> :-** Statement of P.C.

	₹ in lac.
i) Cash Consideration	200
ii) P.V. of Deferred consideration	247.93
$\left\{ \begin{array}{l} \text{₹ 300 Lakhs} \times \text{PVAf @ 10\% for} \\ \text{2 years} \end{array} \right\}$	
P.C.	<u>447.93</u>

**Amortisation Table**



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

I.R.

S.R.

S.D.

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

Int Dr 24.79  
 To D.C. 24.79  
 Int Dr 27.72  
 To D.C. 27.72

D.C. 300  
 To bank 300

### Note-4 Share based payment awards.

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

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

Such awards are still existing as SBP Plan is not replaced.  
 (employees will get E. sh. of subsidiary)

Expired

Unexpired

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

Total FV of SBP scheme (Replacement)

In the books of P.

No entry.

÷

Original v.p.  
or  
Revised v.p.

X  
Expired period.

xxx (a)

- i) include in P.C.
- ii) vend on Dr  
To MoP  
To SBP.

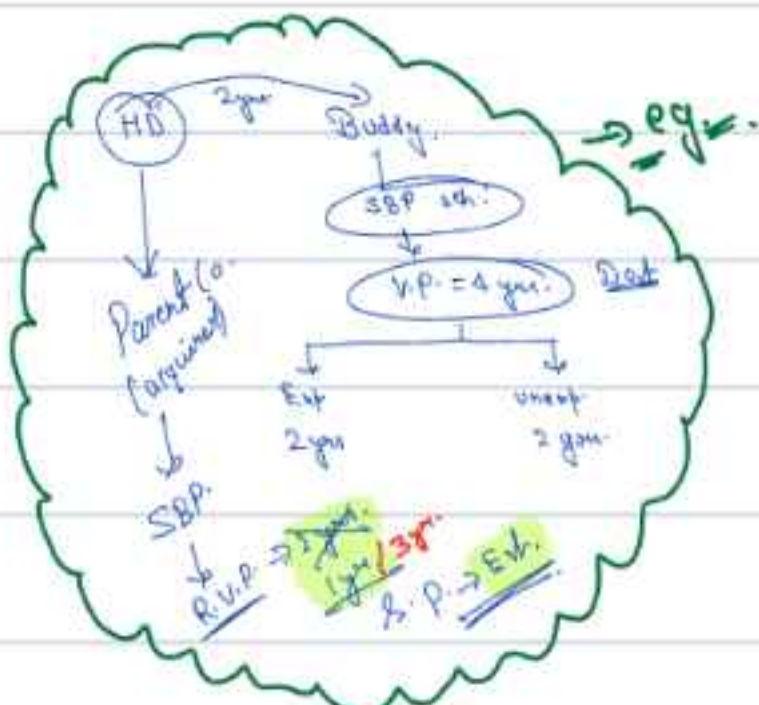
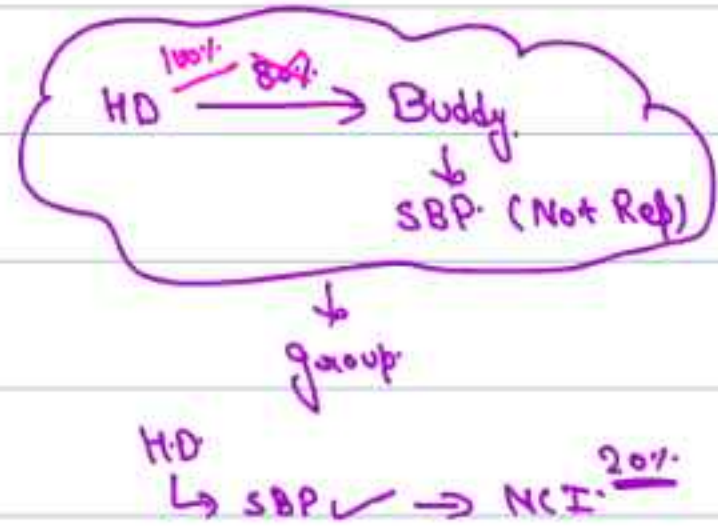
(a)  
xxx (b)

This should be recognised as EBE  
over remaining  
period.

In the books of P  
EBE Dr  
To SBP

In the book of S.  
(agreed)  
as usual we recognise  
exp. as EBE  
(IND AS 102)

Cons. FIS (group)  
N.A. of S. Dr xxx  
To NCI xxx



Fair

Value of Share based payments = 500

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

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

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



Exp.

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

$$\Rightarrow 200$$

Unexp.

$$\begin{array}{r} 500 \\ - 200 \\ \hline 300 \\ \downarrow \\ \text{Remaining} \\ \text{3 years} \end{array}$$

↓  
Exp.

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

$$\Rightarrow 200$$

↓  
Unexp.

$$500 - 200$$

$$\Rightarrow 300$$

$$\downarrow$$

Remaining  
2 years.

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

Green Ltd acquired Pollution Ltd as a part of the arrangement Green Ltd had to replace the Pollution Ltd.'s existing equity-settled award. The original awards specify a vesting period of five year. At the acquisition date, Pollution Ltd employees have already rendered two years of service. As required, Green Ltd replaced the original awards with its own share-based payments awards (replacement award). Under the replacement awards, the vesting period is reduced to 2 years (from the acquisition date)

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

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

At the acquisition date all awards are expected to vest

Sol<sup>n</sup>:-

Expired period = 2 years

V.P. (original) = 5 years

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

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

Unexpired portion = 600 - 200

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

## Solution

### Pre-combination period

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

### Post-combination period

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

### Question # 13

( ILL 28 OF SM )

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

Sol<sup>n</sup> :- Non Replacement Award means employee will get equity shares of acquiree (sub.) i.e. Q Ltd.

on DoA.

Net asset of Q Ltd.  
To NCI

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

$$\text{Unexpired portion} = 500 - 200 = 300 \text{ will be recognized over 2 years by Q Ltd.}$$



QLT (SFS)

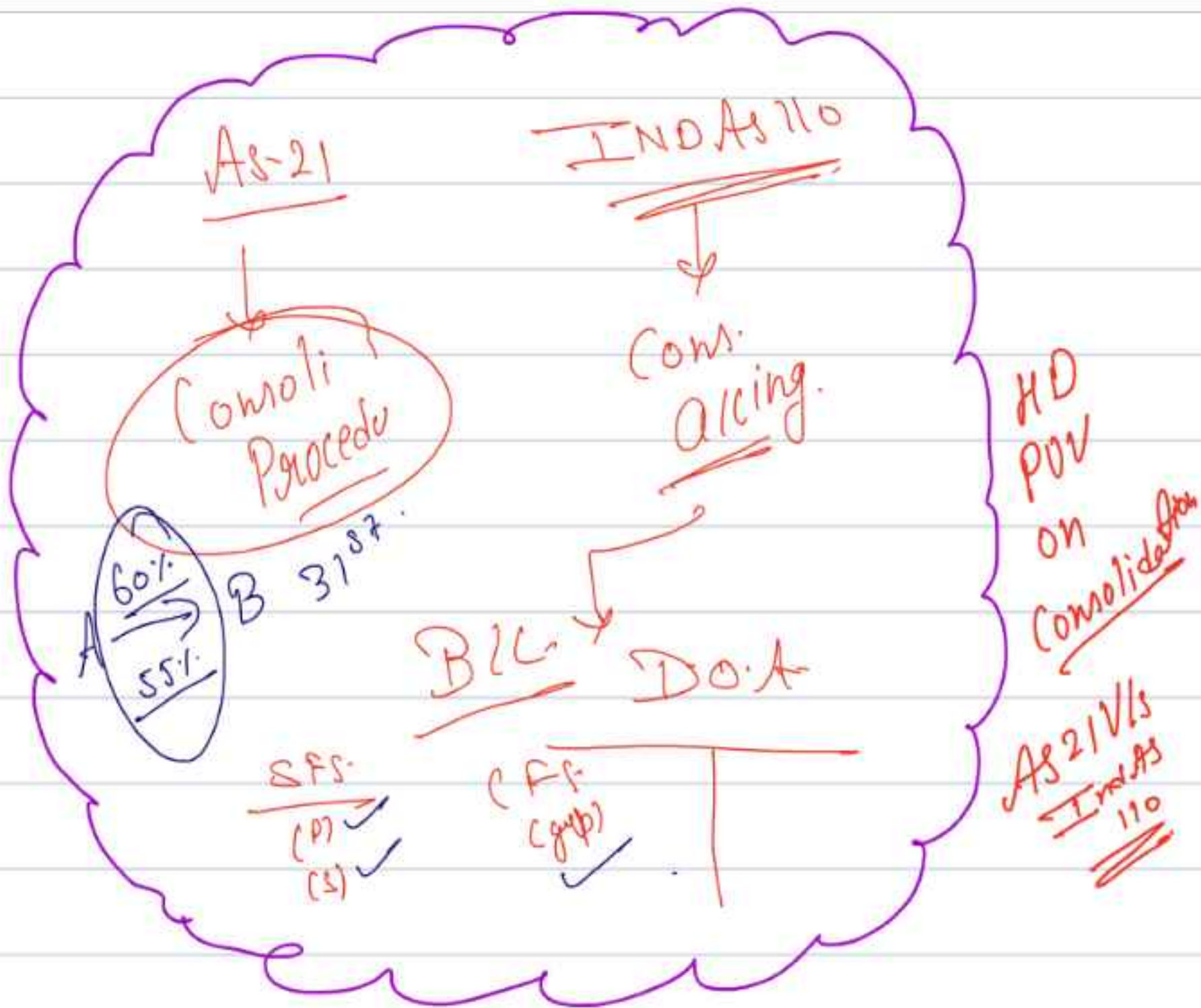
SBPR.

(IND AS 102)

CFS (group)



NCI



H.W.

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

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

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

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

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

ii) measurement of STC =



Non Contractual  
Relation

@ F.V. of settlement.

eg → Defendant & plaintiff

Contractual  
Relation

a) FV - C.A.  
OR

b) Settlement amt

eg → licensor & licensee  
franchisor & franchisee



Refer Pg. 20 & 21 eg → 1, 2 & 3.

Steps Calc<sup>n</sup> of GIW OR Gain on B.P.

Particulars

Amount

Net assets acquired as on D.O.A from acquiree  
(Step 3)

xxx

less: i) p.c. paid on D.O.A. (Step 4)

xxx

ii) f.v. of any previously held invt i.e.  
investments before D.O.A.

xxx



iii) Non Controlling int. (Note-1)  $\frac{xxx}{xxx}$   
 $\frac{xxx}{xxx}$   
 GIW or Gainon B.P.

## Note-1 Non Controlling interest

meaning

- 1) shares of acquiree other than parent co.
  - 2) shares which are not held by parent
  - 3) They are owners without control
- ∴ they are minority ( $\leq 50\%$ )  
 ∴ they are known as N.C.I.

measurement

Method 1

NCI @ PSNA  
 (if Q.R.S.)  
 $NCI = N.A. \text{ of } s \text{ as on DoA. (step 3)} \times NCI \%$   
 = -----

Method 2

NCI @ F.V.

$FMV \text{ of } s \text{ as on DoA.}$ $\downarrow$ no. of F.I. held by NCI $\times FMV \text{ of } s \text{ as on DoA.}$ $\Rightarrow$ -----	$prop. sh. \text{ of Parent}$ $\downarrow$ Support P(80%) = 1000 $\therefore NCI (20\%) = ?$ $\therefore NCI = \frac{2500}{1000} \times 1000$
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Note :- i) if NCI @ PSNA & GIW arises then it is Partial GIW.

ii) if NCI @ F.V. & GIW arises then it

# is Full GIW.



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

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

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

OR

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

examples for NCI, GIW OR G.O.BIP :-

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

Sol<sup>n</sup> :-

N.A. of B as on DoA	80000
- PC	(100000)
	<hr/>
	20000
	<hr/>
	GIW.

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



Soln

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



N.A. of B as on DoA		80000
- PC		100000
NCI @ FV	<u>26000</u>	<u>(126000)</u>
	g/w ↓ Full	<u>46000</u>

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

Soln :-

N.A. of B as on DoA		80000
- PC		100000
NCI @ PSNA.	<u>24000</u>	<u>124000</u>
(80000 x 30%)		g/w <u>44000</u>

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

FV of N.A. of B Ltd = 80000

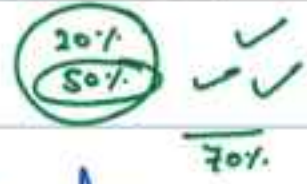
FV of E.sh of B Ltd = ₹ 4

FV of E.sh of A Ltd = ₹ 12



FV of B as on DoA		80000
- PC	100000	
NCI @ FV	<u>120000</u>	<u>220000</u>
(30000 sh x ₹4)		<u>140000</u>

g/w.



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

Sol<sup>n</sup>:-

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

g/w

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

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

Soln:

N.A. of B as on DoA

80000

- PC (45%)

60000

FV of 25% stake on DoA 40000

NCI @ FV (3000 sh x ₹ 11) 33000

133000

g.w

53000



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

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

Calculate goodwill under both methods of valuing NCI

Soln:

Case-1

NCI @ FV

N.A. of B as on 1-4-2010

- PC 85

NCI @ FV 15

₹ in cr.

100

100

15

Case-2

NCI @ PSNA

N.A. of B as on 1-4-2010

- PC 85

NCI @ PSNA (100 x 10%) 10

₹ in cr.

100

90

10

g. on B.P.

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

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

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

**Transaction cost** – company pays acquisition related cost of ₹ 1,00,000 NCI – FV of NCI ₹ 7,50,000

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

FV of net identifiable of B as on DOA - ₹ 60,00,000

Calculate PC and GW

Soln:-

Step 1 Identify the acquirer

A's stake post acquisition in B Ltd = 90% (25% + 65%)  
NCI = 10%

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

∴ Legal acquirer = acting acquirer = A Ltd.

Step 2 Identify the D.O.A.

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

Step 3 FV of N.A. of B Ltd as on DOA = ₹ 60,00,000

Step 4 Caln of P.C.



Cash consideration	5900000
FV of E.sh. issued (1L x ₹10)	1000000
FV of Contingent consideration	3000000
	<u>₹2000000</u>



P.C.

Steps calc<sup>n</sup> of g/w or gain on B.P.

FV of N.A. of B. as on DOA	6000000	
- PC	₹200000	
FV of 25% stake	2000000	
NCI @ FV	₹500000	<u>9950000</u>
		<u>3950000</u>

g/w

HD Gift. Step 6 Journal in books of ALte. (₹ in Lakhs)

SFS

CFS

DOA → 103

DOA → 110

1) Inv. Dr ₹2.  
 To Cash/Bank 59  
 To Equity 10  
 To Prov. for C.C. 3

1) N.A. of s Dr 60L  
 Goodwill Dr 39.5L  
 (₹2 + 6 + 10) ← To Inv. 92L  
 To NCI 7.5

(103)

2) Inv Dr 14  
 To P/L 14 (109)



(Old inv = 6L B.V.  
 25%  
20L FV 14L.A)

3) P/L Dr 12  
 (103) To CIB 12

Question # 19

(SIMILAR TO Q.6 SM & NOV 18)

On 15th 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?

Sol<sup>n</sup>:-

		₹ in cr.
N.A. of B as on 1-1-2001		20
- PC (cash)	15	
NCI @ FV	<u>4.2</u>	<u>19.2</u>
	gain on Barg. purch.	<u>0.8</u>

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?

Sol<sup>n</sup> :- Step 1 :- Identify the acquirer

legal acquirer = Accounting acquirer = Alpha Ltd.

∴ Alpha Ltd = 80%

∴ Non controlling Interest = 20%

Step 2 :- Identify the D.O.A.

⇒ 1-4-2011

Step 3 :- Net Assets taken over

₹



F.V. of assets  
 F.V. of liabilities assumed  
 N.A. To

500  
 (100)  
 400  
 MENTORING  
 HARSHIT DWIVEDI

Step 4 P.C.

Cash consideration 300

Step 5 Calc<sup>n</sup> of goodwill or gain on B.P.

Case 1 if NCI valued @ F.V.

N.A. of BETA Pvt as on 1-4-2011		400
- P.C.	300	
NCI @ FV	<u>84</u>	<u>384</u>
	Gain. B.P.	<u>16</u>

Case 2 if NCI @ PSNA.

N.A. of BETA Pvt as on 1-4-2011		400
- P.C.	300	
NCI @ PSNA (400 x 20%)	<u>80</u>	<u>380</u>
	Gain. B.P.	<u>20</u>

# Steps In the books of Alpha Ltd.



SFS

Inv't in Beta Dr 300  
To Cash 300

(NCI @ PSNA) CFS.

N.A. of Beta Dr 400  
To inv't in Beta 300  
To NCI 80  
To Gr. on B.P. 20

(NCI @ FV)

N.A. of Beta Dr 400  
To inv't in Beta 300  
To NCI 84  
To Gr. on B.P. 16

## Question # 18

[Q 9 ICAI SM, RTP - NOV - 2018]

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

- 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.
- 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.
- 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.

Sol<sup>n</sup> /-

(Fin 1000)

Step 1 Identify the acquirer

legal acquirer = acting acquirer = ABC Ltd.

∴ ABC Ltd = 75%

∴ NCI = 25%

Step 2 Date of acquisition

= 1-7-2017

Step 3 Cal<sup>n</sup> of Net assets acquired.

WN-1 Cal<sup>n</sup> of Deferred tax

CA = F.V. of assets. H.O. 70000

TB = CA. of assets H.O. 60000

T. T.D. 10000

x Tax rate 20%

DTL. 2000



$$\begin{aligned} \text{FV of N.A. acquired} &= 70000 \\ - \text{DTL (WN-1)} &= \frac{(2000)}{68000} \end{aligned}$$



### Step 4 Purchase consideration

F.V. of E.I. invued. $(12000 \times 75\% \times \frac{2}{3} \times ₹ 6.5)$	39000
PV of Deferred com. $(7150 \times @ 10\% \text{ for 1 yr})$ $(7150 \times 0.9091)$	6500
FV of Cont. Cons.	<u>2500</u>
	P.C. <u>70500</u>

### Step 5 Calc<sup>n</sup> of goodwill or gain on B.P.

if NCI @ PSNA

N.A. of JKL as on 1-7-2017	68000
- P.C.	70500

NCI @ PSNA	<u>17000</u>	<u>87500</u>
$(68000 \times 25\%)$	giw	<u>19500</u>

- imp. loss @ 10%	<u>(1950)</u>
giw after imp.	<u>17550</u>



if NCI @ FV

N.A. of JKL as on 1-7-2017	68000
- P.C.	70500

NCI @ FV	<u>18000</u>	<u>88500</u>
$(12000 \times 25\% \times ₹ 6)$	giw	<u>20500</u>

<u>(2050)</u>
<u>18450</u>





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

₹ 2050 loss of imp. is to be borne by

ABC & NCI.

↓ ↓  
75% 25%

HD Gift: in steps In the books of ABC Ltd.



1-7-17. Invntg KL Dr 70500  
 To Equity 39000  
 To D.C. 6500  
 To Prov for c.c. 25000

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

31-3-18. Int Dr 487.5  
 To D.C. 487.5  
 (6500 x 10% x  $\frac{9}{12}$ )

— Do. —

11 Δ in FV of c.c. Prov. for c.c. Dr 3000  
 To P/L 3000

— Do. —

11 —

NCI @ FV.  
 P/L Dr 1537.5



NCI Dr 512.5  
To g/w 2050

HD  
MENTORING  
HARSHIT DWIVEDI

if NCI @ PSNA

P/L Dr 1950  
To g/w 1950

### Question # 20

ILL 12 ICAI SM

Sita Ltd and Beta Ltd decides to combine together for forming a Dual Listed Corporation (DLC). As per their shareholder's agreement, both the parties will retain original listing and Board of DLC will be comprised of 10 members out of which 6 members will be of Sita Ltd and remaining 4 board members will be of Beta Ltd.

The fair value of Sita Ltd is 100 crores and fair value of Beta Ltd is 80 crores. The fair value of net identifiable assets of Beta Limited is 70 crores. Assume non-controlling Interest (NCI) to be measured at fair value.

Determine the goodwill to be recognised on acquisition

Sol<sup>n</sup> :- Step 1 Identify the acquirer

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

A.A = Sita Ltd.  $\therefore$  it has more B.M. and controls composition of BOD in DLC. Or majority control in DLC.

Step 2 Identify D.O.A.  $\rightarrow$  N.A.

Step 3 RV of N.A. acq. as on D.O.A.

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

Step 4 P.C. = N.A.

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



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



Cr/W. 10 Cr.

Question # 21

(PRACTICE Q. 6 SM, RTP MAY 22)

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

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

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

Sol<sup>n</sup> :- Step 1 Identify the acquirer  
A Ltd.

Step 2 Identify the DoA.  
N.A.

Step 3 Cal<sup>n</sup> of FV of N.A. Acq.  
850  
FV of N.A.

Step 4. P.C.

	Rem.	C.C.
Cash. Cons.	Yes	Yes



Prov. for C.C.

1	200
900	1100

Steps Calc<sup>n</sup> of g.w. / g. on B.P.

	Rem.	C.C.
FV of N.A. of B on DoA	850	850
- P.C.	900	1100
NCI	N.A.	N.A.
g.w.	50	250

Impact on financial position & Results.

	Rem.	C.C.
Earnings before Add <sup>n</sup> Payment	1050	1050
impact of additional payment:	(500)	(300) → ∴ prov for 200 was there as P.C.
Reported Results.	550	750

#### Question # 22

(PRACTICE Q. 5 SM, RTP MAY 21)

Bima Ltd. acquired 65% of shares on 1 June, 20X1 in Nafa Ltd. which is engaged in production of components of machinery. Nafa Ltd. has 1,00,000 equity shares of ₹ 10 each. The quoted market price of shares of Nafa Ltd. was ₹ 12 on the date of acquisition. The fair value of Nafa Ltd.'s identifiable net assets as on 1 June, 20X1 was ₹ 80,00,000.

Bima Ltd. wired ₹ 50,00,000 in cash and issued 50,000 equity shares as purchase consideration on the date of acquisition. The quoted market price of shares of Bima Ltd. on the date of issue was ₹ 25 per share.

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

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

Prepare detailed workings and pass the necessary journal entry.

Soln:-



Step 1 Identify the acquirer

Bima Ltd = 65%

NCI = 35%



Step 2 Identify the D.O.A.

1-6-2011

Step 3 N.A.

FV of I.N.A.

8000000

Step 4 P.C.

Cash

5000000

Equity sh. (50000 sh x 25)

1250000



C.C.

980000  
7230000

Step 5 calc of glw / Gr on B.P.

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

8000000

- PC @ 65%

7230000

NCI @ FV

420000

7650000

(100000 x 35% x ₹12)

C.R.

350000



# Step 6 In the books of Bimal Ltd.



## SFS

## CFs

Inv in E.sh of Nafa Dr 7230000

To CIB 500000

To ESC (50000 x 10) 500000

To SP (50000 x 15) 750000

To Prov. for C.C. 980000

NA of NAFA DM BOL

To Inv in N. 72.3

To NCI 4.2

To C.R. 3.5

Step 6 :- Journal entries in the books of acquirer

i) Assets Ho of acquiree Dr xxx (step 3)  
 Goodwill Dr xxx (step 5)

To Liabilities Ho of acquiree xxx (step 3)  
 To NCI xxx (step 5)  
 To MOP or inv. xxx (step 4)

↳ CIB

↳ ESC

↳ SP

↳ D.C.

↳ Prov. for C.C.

↳ SBP Rev. (pre combination)



S T C Dr

To Bank

(beware of old prov.)



3) Unwinding of Int.

Int Dr

To D.C.

4) Misc. entries.

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

↳ write off of Int. to P/L.

↳ Revalue previously held inv. through P/L

↳ write off acquisition cost to P/L

↳ finder fees

↳ Due diligence

↳ legal fees

↳ stamp duty

↳ Investment banker fee.

↳ Bonus to employee for doing successful

acquisition.



↳ if FV of ALL changes during measurement period.

if NA increases.

NCI @ PSMA

NA Dr  
To Cr  
To Cr

NCI @ FV

NA Dr  
To Cr



↳ if decreases

↳ then vice versa.

### 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	10,00,000 ✓
Other Equity	6,00,000 ✓
Non-Current Liability	5,00,000 ✓
Current Liability	2,00,000 ✓
	23,00,000

#### Other Informations:

- FV of Property Plant and Equipment and Furniture is ₹ 9,00,000 and ₹ 2,00,000 respectively
- FV of Inventory and Trade Receivables is ₹3,00,000 and 3,50,000 respectively
- Liabilities were assumed at carrying amount
- A Ltd agreed to pay following consideration ✓
  - Cash of ₹ 5 per share to shareholder of B Ltd
  - 2 shares of ₹ 10 each for every 5 ES held, FV of ₹12 to shareholders of B Ltd
  - ₹ 5,00,000 will be paid to promoters after 3 year Discounting rate 8%
  - ₹ 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
  - 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
  - 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
- Acquisition cost ₹ 1,00,000 paid by A Ltd ✓

Sol<sup>n</sup> :- Step 1 Identify the acquirer

1 + 4 = 5

$$L.A = A.A = A Ltd = 100\%$$



Step 2 Identify the D.O.A.

1-8-2017

Step 3 FV of Net assets acquired as on D.O.A.

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

Step 4 Purchase Consideration

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

SBP awards



Original v.P. = 3 yrs

60000

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



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

Note :- unexpired portion of SBP = 350000 - 60000 = 290000 is

EBE W/O OVER

Remaining 4 years.

Amount payable to vendor  
- Separate Transaction cost  
P.C.

1471900  
(90000)  
1381900

Steps goodwill or gain on B.P.

FV of N.A. acqu. as on 1-8-17  
less P.C.

1750000  
1381900  
368100

Gr. on B.P.

Steps In the books of A Ltd.

1) PPE Dr 200000  
Inventory Dr 300000

Furniture Dr 20000



T.R. Dr 35000

Bank Dr 70000

S.T.C. Dr 90000

To Non C.L. 50000

To C.L. 20000

To Cap. Res. 36810

To Vendor 147190



2) Vendor Dr 147190

To Bank 50000

To Equity 48000

To D.C. 39690

To P.F.C.C. 3500

To SBP Res. 6000

3) Prov. for damage Dr 4000

PIL Dr 5000

To STC 9000

4) PIL Dr 100000

To Bank 100000

Own

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

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

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

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

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

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

Six months after acquisition date, Mini Limited received the independent valuation, which estimated the fair value of 80MW Power Plant as ₹ 54.90 million.

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

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

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
<b>EQUITY AND LIABILITIES</b>	
Equity	
Equity Share Capital	295
Other equity	
Equity component of compound financial Inst	717
Reserves and surplus	2,481
Total equity	3,493
Liabilities	
Non-current liabilities	
Financial Liabilities	
Borrowings	
Total non-current liabilities	268
Current liabilities	
Financial Liabilities	
(i) Trade payables	302
Other current liabilities	36
Total current liabilities	338
Total liabilities	606
Total equity and liabilities	4,099



Sol<sup>n</sup> in a) Ind As 103 defines Business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generate investment income or generate other income from ordinary activities.

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

Hence Transaction will be considered as BIC and not a asset acquisition. Therefore Acquisition method of pricing will be applied.

b) Step 1 acquirer → mini Ltd.



Step 2 D.O.A → 1-4-2011

Step 3 FV of N.A. acquired.



PPE	46.90
Other N.C.A.	11.10
License (I.T.A.)	5
- Non C.L.	<u>(32)</u>
	<u>31</u>

Step 4 P.C. = 51

Step 5 Calc of GIW or gain on B.P.

FV of N.A. acquired	31
- PC	<u>51</u>
	<u>20</u>

GIW

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

1) PPE	Dr	46.90	2) Vendor	Dr	51
O.N.C.A	Dr	11.10		To bank	51
License	Dr	5			
Goodwill	Dr	20			
	To Non. p.l.	32			
	To vendor	51			

# Step 7 Balance Sheet as on 1-4-2011

Particulars	Notes	₹ in mill	Notes to Q/c.
<b>Assets.</b>			
<b>1) Non C.A.</b>			
a) PPE	1	2204.90	Note-1 PPE PPE (existing) 2158 PPE acqui <u>46.90</u> 2204.90
b) I.T.A.		5	
c) Capital WIP.		12	Note-2 Other N.C.A.
d) goodwill on acq.		20	Existing 25
e) DTA.		324.	Acquired <u>11.10</u>
f) other Non C.A.	2	<u>36.10</u>	<u>36.10</u>
<b>Total Non C.A.</b>		<u>2602</u>	Note-3 C.S.C.E.
<b>2) Current Assets.</b>			
a) Inventories.		368	Existing 110 - paid on P.C <u>(51)</u> <u>59</u>
b) Financial Assets			
i) investments.		45	Note-4 T.N.C.L.
ii) TR.		762	Existing 268
iii) C.S.C.E.	3	59	purch. <u>32</u>
iv) Bank bal other than above.		28	<u>300</u>
v) Other F.A.		267	
<b>Total C.A.</b>		<u>1529</u>	
<b>Total assets</b>		<u>4131</u>	

# Equity and liabilities

## 1) Equity

1) E.S.C

295

2) O.E.

Equity Comp. of F.I.  
R.S.

717

2481

Total Equity

3493

## 2) Liabilities

a) N.C.L

F.L

Borrowings.

Total N.C.L

4

300

b) C.L.

P.L.

i) T.I.P.

302

ii) Other C.L.

36

Total C.L.

338

Total Liability

638

Total F & Lia.

4131

d) Ind As 103 provides measurement period where in, if all the required information is

not available on DOA for valuation of ASL.



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



then any change in the value of ASL acquired will be adjusted against goodwill.

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

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

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

## Other Information

- 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 SBP. ✗
  - 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

Assume

10%  
Disco  
Ltd.

Sol<sup>n</sup> Step 1 Identify the acquirer

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

$$\therefore P Ltd = 70\%$$

$$\therefore NCI = 30\%$$

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

Step 3 N.A.T.O

WN-1 Cal<sup>n</sup> of DTA/DTL

BV/FV

T.B/c.A.

Diff.



PPE 350

Prov. for C.L. 5

500

150 DTD

0

5 DTD

D.T.D.

155

X.T.R.

30%

Σ DTA

46.5

PPE

350

Investment

100

Inventory

150

TIR.

300

CIB

100

F.A.

230

Σ DTA (WN-1)

46.5

- long term Borrowings

(200)

- long term provisions

(70)

- D.T.L.

(35)

- S.T.B.

(150)

- T.P.

(300)

- prov. for Cont Liab.

(5)

516.5

Step 4 cal<sup>n</sup> of P.C.

## Particulars

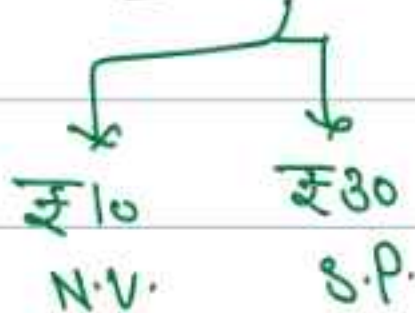
## Workings

Amount



1) F.V. of E.I. issued.

$$(42 \times 70\% \times \frac{1}{2} \times ₹40)$$



56

2) P.V. of Def. Com.

$$(352 \times PVA_f @ 10\% \text{ for } 2 \text{ years})$$

28.93

3) S.B.P. awards

$$\text{Old VP} = 4$$

$$\text{Rev. VP} = 3$$

$$\left( \frac{5}{4} \times 2 = 2.5 \right)$$

2.5

Note :-  $8 - 2.5 = 5.5$

is EBE which will

be wloff in rem. V.P.

P.C.

87.43

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

Steps Calc<sup>n</sup> of GILW or G on B.P.

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



P.C. (Step 4)  
 NCI @ PSNA  
 (516.5 x 30%)

87.43  
154.95 - 242.38  
 C.R. 274.12

Steps HD Gift. In the books of P.



Inv + in D Dr 87.43  
 To Esc ( $4L \times 70\% \times \frac{1}{2} \times 10$ ) 14  
 To DC 28.93  
 To SP ( $4L \times 70\% \times \frac{1}{2}$ ) 42  
 To SBP R. 2.5

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

Step 7 Consolidated Balance Sheet of PLtd as on 1-4-2022

Particulars	Notes	Amount	Notes to A/c
<b>Assets</b>			
1) Non C.A.			
a) PPE	1	650	1) PPE P 300 + acqui 350
b) Investments (400+100)		500	<u>650</u>
c) DTA	WN-1	46.5	2) Esc
2) C.A.			E sh of PLtd @



a) inventory (250+190)

400

₹ 10 each

500

b) F.A. (400+230)

630

+ E.sh. issued

14

c) TIR. (450+300)

750

to sh. of Div

d) C.A.C.E (200+100)

300

(4L x 70% x 1/2 x 10)

Total

3276.5

514

## Equity & Liabilities

### 1) Shareholders funds

a) ESC

2

514

### 3) O.R.

R.A.S of P

730

b) O.E.

3

1128.62

OCI of P

80

c) NCI

steps

154.95

S.P.

42

### 2) NCL

a) LTB (250+200)

450

SBPR

2.5

b) LTP (50+70)

120

Capital R. (steps) 274.12

c) DTL (40+35)

75

1128.62

d) D. Com.

(step 9)

28.93

### 3) C.L.

a) STB (100+150)

250

b) TIP (250+300)

550

c) P for C.L.

(step 3)

5

3276.5

'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

Sol<sup>n</sup>:- Step 1 Acquirer

High speed Ltd = 55%

∴ NCI = 45%

Step 2 D.O.A. → 1-1-02

Step 3 FV of N.A. acquired



PP E	75000	
Investment in bonds	50000	
TIR.	5000	
Brand	35000	
- TIP	<u>(15000)</u>	
Total	<u>150000</u>	



Step 4 P.C.

Cash Consideration 50000

Step 5 goodwill or Gain on B.P.

FV of N.A. acquired 150000

- PC 50000

- FV of inv. earlier held 60000  
(30%)

$$\left\{ \frac{50000}{25\%} \times 30\% \right\}$$

- NET @ FV

90000      200000

$$\left\{ \frac{210000}{55\%} \times 45\% \right\}$$

Goodwill 50000

Step 6 Journal as on 1-1-02

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

To P12

100000



2) PPE Dr 75000

Inv in bonds Dr 50000

TIR Dr 5000

Brand Dr 35000

goodwill Dr 5000

To Inv in E.sh. of Q.B. 110000

To NCI 9000

To TIP 15000

Step 7 Cons. BIS

Particulars	Notes	Amount	Notes to acc.
<b>Assets</b>			
<b>a) Non C.A.</b>			
i) PPE	1	210000	1) PPE H.S.Ltd 13.5 Q.B.Ltd <u>7.5</u> 212
ii) I.T.A.	2	35000	
iii) goodwill	(Steps)	5000	2) I.T.A. Brand 35000
iv) N.C. Inv.		5000	
<b>b) C.A.</b>			
φ) F.A.			3) TIR
ψ) C.A.C.E.		52000	H.S. 8000

ii) TIR

3

130000

Q.B

50000

4100000

130000



Equity & Liabilities.

1) Equity

4) TIR

a) ES

500000

H.S.

300000

b) Other R (R&S)

1600000

Q.B

150000

(15L + 1L)

450000

c) NCI

(Steps)

900000

2) NCL

-

3) CL

a) P.L.

i) Borrowings.

400000

ii) T.P.

4

400000

b) O.C.L.

200000

4100000

Question # 27

PRACTICE Q 2 SM MTP MAY 19 & RTP NOV 19

May 23, May 22

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
<b>Non-Current Asset</b>		
- Property, Plant and Equipment	40.00	90.00
- Intangible Assets	20.00	30.00
- Financial Assets		
• Investments	100.00	350.00 ✓
<b>Current Assets</b>		
- 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	
<b>EQUITY AND LIABILITIES</b>		
- Equity Share Capital of ₹ 100 each	12.00	50.40
- Other Equity	141.00	
<b>Non-Current Liabilities</b>		
Financial Liabilities	-	-
• Borrowings	20.00	20.00
<b>Current Liabilities</b>		
- 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.
Income tax demand of ₹ 7 crore raised by tax authorities; S Ltd. has challenged the demand in the court.	2.0 ✓	Any amount which would be paid in respect of law suit will be tax deductible. → 0 It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

→ PPE → FV 1.2

ignore

FL → 0

(2.5) T.B. ⇒ 2+0 ⇒ 2

(1.1) FV (0.5+2) ⇒ 2.5

Ind As 12

FV 10-1 ⇒ 9

4. In relation to the above-mentioned contingent liabilities, S Ltd. has given an indemnification undertaking to H Ltd. up to a maximum of ₹ 1 crore.
5. ₹ 1 crore represents the acquisition date fair value of the indemnification undertaking.
6. Any amount which would be received in respect of the above undertaking shall not be taxable.
7. The tax bases of the assets and liabilities of S Ltd. is equal to their respective carrying values being recognised in its Balance Sheet.
8. Carrying value of non-current asset held for sale of ₹ 4 crore represents its fair value less cost to sell in accordance with the relevant Ind AS.
9. In consideration of the additional stake purchased by H Ltd. on 1st January, 2007, it has issued to the selling shareholders of S Ltd. 1 equity share of H Ltd. for every 2 shares held in S Ltd. Fair value of equity shares of H Ltd. as on 1st January, 2007 is ₹ 10,000 per share.
10. On 1st January, 2007, H Ltd. has paid ₹ 50 crore in cash to the selling shareholders of S Ltd.
11. Additionally, on 31st March, 2009, H Ltd. will pay ₹ 30 crore to the selling shareholders of S Ltd. if return on equity of S Ltd. for the year ended 31st March, 2009 is more than 25% per annum.
12. H Ltd. has estimated the fair value of this obligation as on 1st January, 2007 and 31st March, 2007 as ₹ 22 crore and ₹ 23 crore respectively. The change in fair value of the obligation is attributable to the change in facts and circumstances after the acquisition date.
13. Quoted price of equity shares of S Ltd. as on various dates is as follows
 

As on November, 2006	₹ 350 per share	✓	P.Y.
As on January, 2007	₹ 395 per share	✓	Dot
As on 31st March, 2007	₹ 420 per share	✓	Y.F.
14. On 31st May, 2007, H Ltd. learned that certain customer relationships existing as on 1st January, 2007, which met the recognition criteria of an intangible asset as on that date, were not considered during the accounting of business combination for the year ended 31st March, 2007. The fair value of such customer relationships as on 1st January, 2007 was ₹ 3.5 crore (assume that there are no temporary differences associated with customer relations; consequently, there is no impact of income taxes on customer relations)
15. On 31st May, 2007 itself, H Ltd. further learned that due to additional customer relationships being developed during the period 1st January, 2007 to 31st March, 2007, the fair value of such customer relationships has increased to ₹ 4 crore as on 31st March, 2007.
16. On 31st December, 2007, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and that more information is not obtainable.
17. H Ltd. and S Ltd. are not related parties and follow Ind AS for financial reporting. Income tax rate applicable is 30%.

F.N.  
F.N.

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

computation notes:

- step 1* (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.
- step 2* (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.
- step 4* (c) What should be the accounting treatment of the contingent consideration as on 31st, March, 2007?

DoA.

(Finan.)

Sol<sup>n</sup>:- *step 1* acquirer

*step 2* DoA.

H Ltd = 60%

1-1-2007

NCI = 40%

*step 3* FV of N.A. acquired.

WN 1 calc<sup>n</sup> of D.T.

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



Particulars	amt	amt.
PPE	90	
Intangible	30	
Investment	350	
Inventories	20	
T/R.	20	
Cash	4	
Indemnification of As.	1	
N.C.A. HFS	<u>4</u>	519

- less

Borrowings	20	
TIP.	28	
Provision	3	
CTL	4	
C.L.	2.5	
DT2 (WNH)	<u>92.85</u>	<u>150.35</u>
	<b>Total</b>	<b><u>368.65</u></b>

Step 4 P.C.

Particulars	workings	amount.
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Cash		50
Equity sh. in.	$(0.12 \times 45\% \times \frac{1}{2} \times ₹ 10000)$	270
<b>FV of C.C.</b>		<b>22</b>
		<hr/>
		342

### Steps Calc<sup>n</sup> of GIW / Non B.P.

FV of N.A. on 1-1-2007		368.65
- P.C. (45%)	342	
FV of invt held.	7.11	
$\left\{ 0.12 \times 15\% \times ₹ 355 \right\}$		

NCI @ PSNA $(368.65 \times 40\%)$	147.48	496.57
	<b>GIW</b>	<b>127.92</b>

### Steps In the books of H Ltd.

HD Gift.

C.F.S.

S.F.S.

1-1-07

N.A. of S DM 368.65

GIW DM 127.92

$(342 + 7.11)$  To Inv 349.11

To NCI 147.48

1-11-06 Inv ins 6.3  
To CIB 6.3

$(0.12 \times 15\% \times 350)$

1-1-07 Inv ins 0.81

To PIL 0.81

PIL Dr 1

(7.11 - 6.3)

To P.F.C.C. 1



HARSHIT DWIVEDI

1-1-07 Inv in S Dr 342

To Equity 270  
 To CIB 50  
 To p.f.c.c. 22

C. Rel. Dr 3.5

To GrW (60%) 2.1  
 To NI I (40%) 1.4

31-3-07 PIL Dr 1

To P.F.C.C. 1

NO Griff.  
 if NI I was Valued @ FV  
 then  
 C Rel: Dr 3.5  
 To GrW 3.5.

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

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

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

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

For past few months, due to liquidity issues, Company Z defaulted in payment of cash calls to operators. Therefore, company Y (Operator) 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

Soln



1) Ind As 103 defines Business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generate investment income or generate other income from ordinary activities. For a transaction to qualify for BIC then entity

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

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

In the instant case

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

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

∴ we can conclude that above arrangement is under BIC.

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

a) Acquirer obtains control