Ind As 103 - Business combination

Steps to prepare Consolidated B/sheet of Acq. date

1. Record All items of Acquirer at their carrying amount
2. Pull All Assets and Liabilities of Acquiree at Fair value. {including DTA* & other Assets/Liab. not recognised in Acquiree's Books}
3. Record NCI either at Prop. share of INA or at Fair value. Partial Goodwill Full Goodwill.
4. Record Purchase consideration Paid to Acquiree {Cash, Shares, Assets, Liab., C.C.}
5. Record B/fig as Goodwill or Capital Reserve.

Journal for Acq.

I.N.A. Dr.		50000	1
Goodwill Dr.		5000	4
To NCI		10000	2
To P.C.		45000	3

Additional Points

1) Contingent Consideration payable to Acquiree measured at Fair value at Acquisition date and forms part of P.C. if no service condition. {even if it is not Probable} → P.C. → Not a part of I.N.A.

if classified as Equity – No subsequent Remeasurement

Other cases – subsequently Remeasured at Fair Value at each R.P. end and difference in P/L.

2) Contingent Liability of Acquiree → Part of I.N.A.

if Present obligation exist and Fair value of Contingent Liability measured reliably, it forms Part of I.N.A. even if it is not Probable that outflow of resources reqd. to settle obligation.

Subsequently Contingent Liab. measured at Higher of :-

i) Amount initially recognised 10000

ii) Amount that would be recognised as per Ind As 37. NIL

3) Direct Cost of Acquisition in case of B.C. is charged to P/L.

4) Indemnification Asset - Seller may Indemnify Acquirer against losses above a specified amount on liability arising from particular contingency. It is recognised maximum to the extent of related contingent liability recognised by Acquirer.

5) Asset Held for Sale : Measure at Fair Value less cost to sell.

6) Income taxes : Recognition of DTA / DTL on initial recognition of asset / Liab.

7) Leases

if Acquiree is a lessee : Measure at P.V. of remaining lease payments as if new lease. Measure ROU Asset at same amount adjusted to reflect fav./unfav. terms when compared with market terms.

if Acquiree is a lessor : Acquirer takes into account terms of the lease.

8) Assembled Workforce : Not an Identifiable Asset. It subsumes into Goodwill.

9) Intangible Asset

if it meets the definition of Intangible Asset (i.e. Identifiable, Non monetary), it is recognised at fair value even if it is not recognised in Acquiree's F/S.

Acquiree's Research phase expenses also recognised at its fair value at Acq. date.

10) Re-Acquired Rights. ⟨Refer illustration 20⟩

Contractual Pre-existing relationship

Settlement Gain or loss = 180000 ⟨lower of the two⟩

Amt by which contract is Fav./unfav. compared with current market terms ⟨450000 - 150000⟩ = 300000

OR

Amt. of stated settlement prov. to whom contract is Unfav. ⟨150000 + 20%⟩ = 180000

∴ Purchase consideration = 1,00,00,000 - 180000 = 98,20,000

Non Contractual Pre-existing relationship ⟨Eg. lawsuit⟩

Recognise Gain or loss at Fair Value.

11) SBP Awards

Replacement Award ÷ Amount of SBP Awards that forms part of P.C.

= Market Based value of Original Award. × $\dfrac{\text{Vesting period Completed}}{\text{Greater of original Vesting period or New Vesting Period.}}$

Remaining SBP Award recognise as Emp. Comp. Exp over remaining vesting period.

Non Replacement Award ÷ Amount of SBP that forms part of NCI

= Market Based value of Original Award. × $\dfrac{\text{Vesting period Completed}}{\text{Greater of original Vesting period or New Vesting Period.}}$

12) Measurement Period

if all reqd. information is not available on Acq. date, Entity allocate purchase price to Assets and liabilities on a provisional basis.

During measurement Period, Acquirer shall retrospectively adjust provisional Amount to reflect new information obtained about facts and circumstances that existed at Acquisition date. Any change is adjusted against Goodwill or Capital Reserve.

Measurement period ends at earlier of ÷

i) One year from Acq. date   ii) Receives info. & learns that no more info obtainable.

13) Step Acquisition

1) Investment in associates remeasured at fair value and difference in P/L.

2) Fair value of Investment in associates forms part of P.C.

3) FCTR reclassified to P/L, Reval^n Reserve trfd. to Retained Earnings.

Journal {Illustration 11}

1) Inv in associates 150
   To P/L 150

2) INA 30000
   Goodwill 4000
   To NCI x
   To P.C. 25000
   To Inv in Ass. 9000

3) FCTR 100
   To P/L 100

4) Reval^n Reserve 50
   To Retained Earnings. 50

Common Control Business Combination

E.g. merger between Fellow subsidiaries, merger of subsidiary with parent, Acquisition of an entity from an entity within the same group.

Method of Accounting for Common Control

Pooling of Interest method

1. Assets and liabilities of combining entities reflecting at their carrying amounts.
2. No Recognition of any new assets or liabilities.

The consideration may consists of ÷ P.C.

1. Securities – measure at Nominal value. {Not Fair value}
2. Cash – " " cash paid.
3. Other Assets – " " Fair value.

The Balance of Retained Earnings of Transferor aggregated with Balance of Retained Earnings of transferee

Also, General Reserve, Revaluation Reserve, Capital Reserve of transferor becomes General Reserve, Revaluation Reserve, Capital Reserve of transferee.

No Goodwill is recognised in case of common control Business combination.

It is adjusted with capital Reserve even if Negative.

Elements of Business ÷ Input {PPE, I.A. etc.}, Process {organised workforce}, output {returns}

Accounting, Billing, Payroll, other admin system are not processes used to create outputs.

If Concentration test met ÷ Asset Acquisition {Not a Business} – No further assessment reqd.

If Concentration test not met ÷ Further Assessment {check Input, process, output}

Concentration test

F.V. of Consideration Pd. (50%) + FV of Previously held Interest (20%) + Fair Value of NCI (30%).

(+) FV of all liabilities {Excl. DTL}

(-) Cash & DTA

= FV of Gross Assets Acquired

If any single Asset is 90% or more of Gross Assets acquired, concentration test met and it is asset acquisition.

Illustration 40 {DTA, Prov. for suit damages, NCI, SBP award in SBPR}

Where you may make mistakes { 70% shares i.e 2.88 Lh × 1/12 }

1. DTA cal^n on PPE as well as Prov. for suit Damages. * 46.5
2. Prov. for suit Damages to be included in Prov. for Liability o 58
3. NCI inclusion in B/sheet
4. Also SBPR to be included in other Equity as part of P.C. *