

## IND AS 103 - BUSINESS COMBINATION & IND AS 110 - CONSOLIDATION

Ex. Jagati ud. purchased 70% shares of Priyanka ud. on a cash consideration of ₹ 203000.

Balance sheet of Jagati Ud and Priyanka Ud (1.4.01)

	C.A. Jagati Ud	C.A. Priyanka Ud	Fair Value Priyanka Ud
Net Assets	50000	200000	220000
Intangible Assets	200000	20000	15000
Inventories	80000	50000	No Invo
Receivables	60000	10000	10000
Cash	360000	30000	
Share Capital	200000	100000	
Other Equity	650000	150000	
Debtors	300000	50000	46000
Payables	50000	10000	9000

Here,

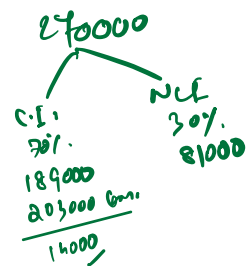
Acquirer - Jagati Ud, Acquiree - Priyanka Ud

To prepare consolidated Balance sheet at Acquisition date.

$$\begin{aligned} \text{Fair Value of N.A. of Acquiree} &= 220000 + 15000 + 50000 + 10000 + 30000 \\ &\quad - 46000 - 9000 \\ &= \underline{270000} \end{aligned}$$

Case 1: If NCI measured at Prop. share of Net Assets

$$\text{NCI} = 270000 \times 30\% = \underline{81000}$$



Case 2: If NCI measured at Fair Value

$$\text{NCI} = \frac{203000}{70\%} \times 30\% = \underline{87000}$$

Case 1

B/S sheet	
Equity & Liab	Assets
NCI (30% of 27000) <i>Proportionately</i>	I.N.A. = 270000
81000	Cash (P.C.) = (203000)
	Goodwill (Btg) = 14000
	<i>Partial G/W (Patent)</i>
<u>81000</u>	<u>81000</u>

Journal Entries

I.N.A. ①	270000	
Goodwill (Btg) ②	14000	
To NCI ③		81000
To Cash (P.C.) ④		203000

Case 2

B/S sheet	
Equity & Liabilities	Assets
NCI (Fair Value)	I.N.A. = 270000
87000	Cash (P.C.) = (203000)
	Goodwill = 20000
	<i>Full Goodwill</i>
	<u>87000</u>

*Patent = 16000  
NCI = 6000*

Journal Entries

I.N.A. ①	270000	
Goodwill ②	20000	
To NCI ③		87000
To Cash (P.C.) ④		203000

Soln

Cons. B/S sheet (at Acquisition Date)

Goodwill	14000	14000
P/E	< 500000 + 220000 >	720000
Intangible Assets	< 200000 + 150000 >	215000
Inventories	< 80000 + 50000 >	130000
Receivables	< 60000 + 10000 >	70000
Cash	< 360000 + 300000 - 203000 >	187000
	<u>1200000</u>	<u>1336000</u>
Share Capital	< 200000 >	200000
Other Equity	< 650000 >	650000
NCI	81000	81000
Debentures	< 300000 + 46000 >	346000
Payables	< 50000 + 9000 >	59000
	<u>1200000</u>	<u>1336000</u>

NCE at Prop. share of Net Assets

PPE (1)	22000
I.A. (1)	15000
Inventory (1)	5000
Receivables (1)	10000
Cash (1)	3000
Goodwill (B. fig) (4)	14000
TO NCI (2)	81000
TO Debtors (1)	46000
TO Payables (1)	9000
TO Cash (P.L.) (3)	203000

↓

Since NCE measured at Prop. share of I.N.A.,  
Goodwill of £ 14000 relates only to  
Parent.

NCE at Fair Value

PPE (1)	22000
I.A. (1)	15000
Inventory (1)	5000
Receivables (1)	10000
Cash (1)	3000
Goodwill (B. fig) (4)	2000
TO NCI (2)	87000
TO Debtors (1)	46000
TO Payables (1)	9000
TO Cash (P.L.) (3)	203000

↓

Here, NCE measured at Fair Value of  
£ 87000 instead of Prop. I.N.A. of £ 81000,  
∴ Goodwill allocated to NCI = 6000  
Goodwill " " Parent = 14000  
∴ Total Goodwill = 14000 + 6000  
= 20000

Identifiable Net Assets = 270000

Parent's share = 270000 × 70%  
= 189000

P.L. Paid = (203000)  
Goodwill (Parent) = 14000

NCI share = 270000 × 30%  
= 81000

measured at Prop. Net Assets  
i.e. 81000

∴ Goodwill = 81000 - 81000  
= NIL

measured at Fair Value  
i.e. 87000

∴ Goodwill = 87000 - 81000  
= 6000



Illustration 2: Determination of goodwill

7208

Ram Ltd. Acquires 60% of Raja Ltd. By paying cash consideration of ₹ 750 lakh (including control premium). The fair value of non-controlling interest on the date of acquisition is ₹ 480 lakh. The value of subsidiary's identifiable net assets as per Ind AS 103 is ₹ 1,000 lakh. Determine the value of goodwill and pass the journal entry.

NCI at Proportionate Net Assets

		<u>B/sheet</u>		
NCE (40%)	400	INA	1000	
		Cash	(750)	
		Goodwill (Partial)	150	
			30    120	
<u>Journal Entries</u>				
INA	1000			
Goodwill	150			
TO NCI		400		
TO Cash		750		

NCI at Fair Value

		<u>B/sheet</u>		
NCE (FV)	480	INA	1000	
		Cash	(750)	
		Goodwill (Full)	230	
				Parent → 150 NCE → 80
<u>Journal Entries</u>				
INA	1000			
Goodwill	230			
TO NCI		480		
TO Cash		750		

Difference between Asset Acquisition and Business Combination

<u>Eg.</u>	<u>C.A.</u>	<u>Fair Value</u>
land	200000	300000
machinery	70000	40000
Intangible Assets	45000	50000
	315000	440000

Consideration Paid = 460000

Direct cost of acquisition Paid = 15000

Note In case of Business Combination, Direct cost of Acquisition is charged as expenses in P/L.

Finders Fees, legal Fees, Bonus to employees on successful acquisitions.

### Case 1 - Business Combination

1. Land	300000	
Machinery	90000	
F.Assets	50000	
Goodwill	20000	
	TO N.E.	NIL
	TO Cash (P.L.)	460000

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2. Direct Cost of Acq. (P.L.)	15000	
	TO BANK	15000

### Case 2: Asset Acquisition

Apply Ind AS 16, PPE initially measured at cost

~~PPE (land, mech, in) 475000~~  
~~TO BANK 475000~~

$$\text{Land} \left\langle 475000 \times \frac{300000}{470000} \right\rangle = 323863$$

$$\text{Machinery} \left\langle 475000 \times \frac{90000}{470000} \right\rangle = 97159$$

$$\text{F.A.} \left\langle 475000 \times \frac{50000}{470000} \right\rangle = 53977$$

Ans 475000

Land A/c 323863

Machinery A/c 97159

F.Assets A/c 53977

TO BANK 475000

### Determination of Purchase Consideration

The consideration transferred in a Business Combination shall be measured at Fair Value —

- (i) Fair Value of the Assets transferred by Acquirer (including cash)
- (ii) Equity interest issued by Acquirer.
- (iii) Liabilities incurred by Acquirer to former owners of acquiree.
- (iv) Contingent consideration

### Contingent consideration

The acquirer shall recognize the acquisition date fair value of Contingent Consideration.

The acquirer shall classify an obligation to pay Contingent Consideration as

An equity or as a liability on the basis of Ind AS 32 Financial Instruments.

Contingent consideration: Company A agrees to pay additional consideration of ₹ 7,00,000 if the cumulative profits of Company B exceed ₹ 70,00,000 over the next two years. At the acquisition date, it is not considered probable that the extra consideration will be paid. The fair value of the contingent consideration is determined to be ₹ 3,00,000 at the acquisition date.

As per Ind AS 103, Even if it is not probable that Contingent Consideration will become payable, it will be included in P.C. at Fair Value.

∴ Amount included in P.C. = ₹ 300000

Net	1000000	
Prov.	300000	
		8/15
		INR - 5000000
		(Cash) ₹ (4200000)
		(Goodwill) ₹ 500000

### Step Acquisition

1st April 2001 ⇒ ABC acquired 30% share of XYZ from ₹ 800000 (No control)

#### B/Sheet

Cash	-(800000)
Investment in associates	- 800000

1st April 2002 ⇒ ABC acquired another 40% share from ₹ 2000000 Cash.

Control Established

Fair value of previously held 30% interest = 1500000

Fair Value of Identifiable Net Assets of XYZ = 4200000

1. Previously held interest measured at Fair Value on DOA and difference recognised in P/L.

Investment in Associates Dr. 700000

To Profit and Loss 700000

⟨ 1500000 - 800000 ⟩

∴ Revised C.A. of Investment in Associates

= 1500000 ⟨ 800000 + 700000 ⟩

#### B/Sheet

PL	700000	Inv in Ass	800000
		(+) F.V. Inc	700000
		R.C.A.	1500000

dr. Purchase consideration = Cash paid + Investment in Associates derecognised  
 = 150000 + 200000

= 350000  
 Inv in Associates Derecognised (150000)  
 Cash (200000)

3. IF NCE measured at Prop. share of Net assets

Balance Sheet

NCE (30% of 420000)	126000	I.N.A. (100% net assets)	420000
		Cash	(200000)
		Inv in Associates Derecognised	(150000)
		Goodwill (B. big)	56000

↳ Partial Goodwill

Journal Entries

1. Inv in Associates	70000	
TO P/L		70000
2. I.N.A. ①	420000	
Goodwill ④	56000	
TO NCE ②		126000
P.C. TO Cash ③		200000
P.C. TO Inv in Ass. ③		150000

<u>SHORT CUT (ICAI)</u>	
I.N.A.	420000
Goodwill	56000
TO NCE (30%)	126000
TO Cash	200000
TO Inv in Ass	80000
TO P/L	70000

Sheet (NCE at Fair value)

NCE ( $\frac{200000}{40\%} \times 30\%$ )	150000	I.N.A.	420000
		Cash	(200000)
		Inv.	(150000)
		GL/SHY	80000

(Full)

↳ 56000 Goodwill  
 ↳ 29000 NCE

Ques

- 16 NCE measured at Prop. Net Assets = Partial Goodwill (Partial Goodwill)
- 16 NCE measured at Fair Value = Full Goodwill method (Partial + NCE GL/SHY)

Question 1: (Nov' 20)

Company A and Company B are in power business. Company A holds 25% of equity shares of Company B. On 1st November, Company A obtains control of Company B when it acquires a further 65% of Company B's shares, thereby resulting in a total holding of 90%. The acquisition had the following features:

- Consideration: Company A transfers cash of ₹ 59,00,000 and issues 1,00,000 shares on 1st November. The market price of Company A's shares on the date of issue is ₹ 10 per share.
- Contingent consideration: Company A agrees to pay additional consideration of ₹ 7,00,000 if the cumulative profits of Company B exceed ₹ 70,00,000 over the next two years. At the acquisition date, it is not considered probable that the extra consideration will be paid. The fair value of the contingent consideration is determined to be ₹ 3,00,000 at the acquisition date.
- Transaction costs: Company A pays acquisition-related costs of ₹ 1,00,000.
- Non-controlling interests (NCI): The fair value of the NCI is determined to be ₹ 7,50,000 at the acquisition date based on market prices. Company A elects to measure non-controlling interest at fair value for this transaction.
- Previously held non-controlling equity interest: Company A has owned 25% of the shares in Company B for several years. At 1st November, the investment is included in Company A's consolidated balance sheets at ₹ 6,00,000, accounted for using the equity method; the fair value is ₹ 20,00,000.

25+65  
=90%  
NCI  
10%

The fair value of Company B's net identifiable assets at 1st November is ₹ 60,00,000, determined in accordance with Ind AS 103.

Determine the accounting under acquisition method for the business combination by Company A.

Calc of Purchase consideration

Cash	= 5900000	I.N.A	6000000
Shares (100000 x 10)	= 1000000	(NCI)	(750000)
Contingent consideration (Liability)	= 300000		5250000
<u>Previously held interest (25%)</u>	<u>= 2000000</u>	P.C.	(9200000)
	<u>9200000</u>	g/w	3950000

Journal (gpm)

1. Investment in Associates	1400000		
To Profit and loss		1400000	
2. I.N.A.	6000000		
Goodwill (b:biq)	3950000		
To NCI (Fair Value)		750000	

		<u>As per ICAI</u>	
		<u>Single Entry</u>	
I.N.A.	6000000		
Goodwill (b:biq)	3950000		
To NCI		750000	
To cash		5900000	

P.C.	}	To Cash	5900000
		To Shares	1000000
		To Provision (cont. loss.)	300000
		To Inv in Associates	2000000

To Shares	1000000
To Provision (cont. loss.)	300000
To Inv in Associates	600000
To PL	1400000

3. Transaction cost (PL)	100000
To Bank	100000

Transaction cost (PL)	100000
To Bank	100000

Rough for understanding

PL

1400000

B/Sheet

Bank	(600000)
Inv in Associates	600000
(+) Inv in Fair Value	<u>1400000</u>
Inv in Associates (1st Nov)	2000000

B/Sheet

NCE	750000
Shares issued	1000000
Provision (liab)	300000

I/A	6000000
Cash	(5900000)
Inv in ACS developed	(2000000)
Goodwill	3950000

Illustration 11: (Similar Q asked in May'19) 🧐🧐 Most imp.

On 1st April, 20X1, PQR Ltd. acquired 30% of the voting ordinary shares of XYZ Ltd. for ₹ 8,000 crore. PQR Ltd. accounts its investment in XYZ Ltd. using equity method as prescribed under Ind AS 28. At 31st March, 20X2, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

	(₹ in crore)
Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50

The carrying amount of the investment in the associate on 31st March, 20X2 was therefore ₹ 8,850 crore (8,000 + 700 + 100 + 50).

On 1st April, 20X2, PQR Ltd. acquired the remaining 70% of XYZ Ltd. for cash ₹ 25,000 crore. The following additional information is relevant at that date:

	(₹ in crore)
Fair value of the 30% interest already owned	9,000
Fair value of XYZ's identifiable net assets	30,000

How should such business combination be accounted for?



## THE ACQUISITION METHOD

Step 1 ÷ Identifying the Acquirer.

Step 2 ÷ Determining the Acquisition Date.

Step 3 ÷ Recognising & measuring Identifiable Assets & Liabilities and NCI.

Step 4 ÷ Recognising & measuring goodwill or gain on Bargain Purchase.

## Identifying Acquiring Enterprise

### 1. The Acquiring Enterprise

The Acquiring Enterprise is the enterprise which obtains control and determination of control is as per guidance given in Ind AS 110.

As per Ind AS 110 - An Investor controls an investee if and only if investor has all the following

- (a) **Power** over the Investee. (i.e. Power to direct relevant activities)
- (b) Exposure or rights to **variable returns** from its involvement within the Investee
- (c) the ability to use its Power over Investee to affect investor's return (Principal vs Agent)

Control Assessment not only depend on Voting rights instead it depends on following as well ÷

- (i) Potential Voting Rights (if currently Exercisable rights)
- (ii) Rights of NCI
- (iii) Other contractual rights of investor if substantive in nature.

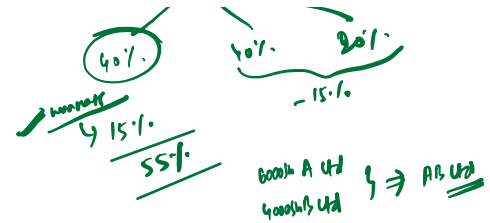
2. Acquiring through Payment of Cash and Incurring Liability.

3. Acquisition through issue of Equity Instruments (Except Reverse Acquisition)

TIDE UP

## Other Pertinent Facts and Circumstances

Acquirer is usually the Entity who ÷



- (i) Receive largest portion of voting rights in combined Entity.
  - (ii) Holds largest minority voting rights and no other has significant voting interest.
  - (iii) whose owners have ability to elect, appoint or remove majority of members of governing body of combined Entity.
  - (iv) whose management dominates management of combined Entity.
  - (v) That pays premium over the combination fair value of equity interest.
  - (vi) whose relative size (Assets, Revenue, Profit) significantly greater than other Entity.
- 

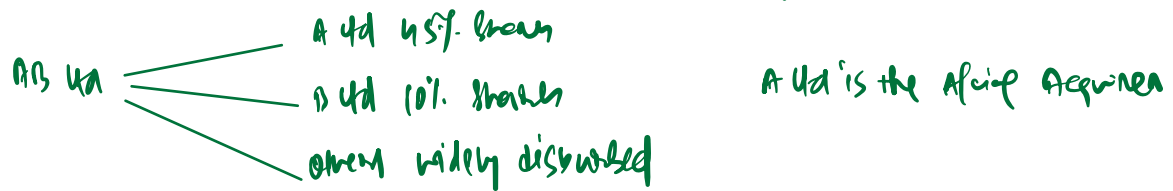
## Contingent Payment to Employee Shareholders

- (i) If consideration paid to Employee without any service condition — **Forms part of P.C.**
- (ii) " " " " " with a condition of continuous employment post Acquisition — **Not form part of P.C.**

1. A Ltd merged with B Ltd and formed new company AB Ltd.



2. A Ltd merged with B Ltd and formed new company AB Ltd

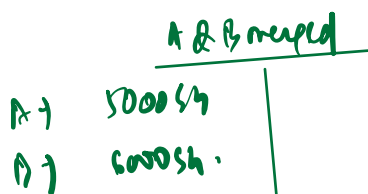


3. A Ltd merged with B Ltd and formed new company AB Ltd

a) Governing Body of AB Ltd will be appointed/removed by A Ltd

b) Mgt of A Ltd will dominate mgt of B Ltd.

c) Size of A Ltd is greater in terms of Asset, Revenue, Income.



Acquirer share based Payment Award exchanged for awards held by Acquiree's employees.

### 1. Replacement Award

E.g. Jagati Ltd acquired 80% shares of ABC Ltd for a cash consideration of ₹ 1000000.

Fair Value of I.N.A. of ABC Ltd = 850000.

ABC Ltd has existing equity settled share based payment scheme which vest after 5 years of service. ABC employees already delivered 2 years of service.

Now, Jagati Ltd. replaced the award with its own SBP Awards.

Market Based Value of original award at Acq. date = 500000

" " " " Replacement award at Acq. date = 600000

Here,

$$500000 \times \frac{2\text{yrs}}{5\text{yrs}} = 200000$$

Vested Part = 2 years of completed service which forms part of P.C.

∴ Amount of SBP Award that forms part of P.C. =

Market Based Value of original award  $\times$   $\frac{\text{Vesting Period Completed}}{\text{original vesting period or New Vesting Period (whichever is greater)}}$

*→ m.v. of original award*

$$= 500000 \times \frac{2\text{yrs}}{5\text{yrs}} = 200000 \text{ (Part of P.C.)}$$

∴ Total purchase consideration = 1000000 + 200000 = 1200000

Journal

I.N.A	850000	
Goodwill	520000	
	To NCE (80%)	170000
	To Bank	1000000
	To SBPR (equity)	200000

B/Sheet

NCE	170000	INA	850000
Equity		Bank	(1000000)
SBPR	200000	Goodwill	520000

Remaining £ 40000 (£ 60000 - 20000) recognised as **Employee Compensation Expenses** over the remaining 3 years of service.

⇓

Post Business combination, Expenses recognised every year

Employee Compensation Expenses (P/L) 133333  
 To SBPR (Equity) 133333  
 { Same Entry for 1st, 2nd & 3rd year }

Case 2

Again if all conditions same except that Replacement vesting period reduced to total 4 years instead of 5 years.

$$\text{Port of P.c.} = 50000 \times \frac{2 \text{ yrs}}{5 \text{ yrs} / 4 \text{ yrs}} = 200000$$

↑  
greater

Case 3

Again if all conditions same except that Replacement vesting period reduced to total 6 years instead of 5 years.

$$\text{Port of P.c.} = 50000 \times \frac{2 \text{ yrs}}{6 \text{ yrs} / 5 \text{ yrs}} = 166667$$

↑  
greater

Non Replacement Award

JDE (Acquirer)

JDE acquired 80% interest in ABC.

Proportionate Holdings = 8000 Shares

∴ NCI holdings = 2000 Shares.

ABC (Acquiree)

Share Capital of ABC

(10000 Shares of £ 10 each) = 100000

Also, ABC has existing SBP awards whose Vesting Period is 5 years. Already Vested = 2 years.

Market Value of Original award = 50000

∴ Purchase consideration NCI =  $500000 \times \frac{2475}{5475} = 200000$   
 $\downarrow$   
 NCI.

I.N.A.	850000	
Goodwill	520000	
	To NCI (170000 + 200000)	370000
	To Cash	1000000

		<u>Bisheer</u>
NCI (20%)	170000	I.N.A. 850000
NCI (SBPR)	200000	Cash (1000000)
		Goodwill 520000

REPLACEMENT AWARD

INA	850000	
Goodwill	520000	
	To NCI	170000
	To Bank	1000000
	To SBPR (equity)	200000

NON REPLACEMENT AWARD

INA	850000	
Goodwill	520000	
	To NCI (170000 + 200000)	370000
	To Bank	1000000
	<del>To SBPR (equity)</del>	<del>200000</del>

4) Dynamic Ltd had certain equity settled share-based payment award (original award) which got replaced by the new awards issued by Professional Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of Dynamic Ltd have already served 2 years of service. As per the replaced awards the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:

- Original award- ₹ ₹ 5 lakh
- Replacement award- ₹ ₹ 8 lakh.

Part of P.L. =  $500000 \times \frac{2475}{5475} = 250000$

Illustration 28 Non Replacement

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 years. Company P determines that the market-based measure of the award at the acquisition date is ₹ 500 (based on measurement principles and conditions at the acquisition date as per Ind AS 102).  $500 \times \frac{2475}{5475} = 200$  NCI

Solution

The market-based measure or the fair value of the award on the acquisition date of 500 is allocated NCI and post combination employee compensation expense. The portion allocable to pre-combination period is  $500 \times \frac{2}{5} = 200$  which will be included in pre-combination period and is allocated to NCI on the acquisition date. The amount is computed based on original vesting period. The remaining expense which is  $500 - 200 = 300$  is accounted over the remaining vesting period of 2 years as compensation expenses.

Pre combination

## Purchase Price Allocation - Measurement Principle

### 1. Contingent Liability

Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, defines a contingent liability as:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) a present obligation that arises from past events but is not recognized because:
  - i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - ii. the amount of the obligation cannot be measured with sufficient reliability.

But in contrast to Ind AS 37, Ind AS 103 allows recognition of contingent liability even if it is not probable that outflow of resources embodying economic benefits will be required to settle the obligation.

Required criteria is - (i) Present obligation

(ii) Fair value of obligation can be measured reliably.

#### Example: 3

A suit for damages worth ₹ 10 million was filed on Company B for alleged breach of certain contract provisions. Company B had disclosed the same as a contingent liability in its financial statements, as it considered that it is a present obligation for which it was not probable that the amount would be payable. Company A acquires Company B and determines the fair value of the contingent liability to be ₹ 2 million.

Company A would recognize ₹ 2 million in its financial statements as part of acquisition accounting, even if it is not probable that payment will be required to settle the obligation.

### Subsequent Recognition

After initial recognition, contingent liability measured at higher of -

(i) Amount initially recognised. 2m

(ii) Amount that would be recognised as per Ind AS 37. 3m

## 2. Indemnification Asset

The seller (Acquirer) may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency. In other words, seller guarantees that acquirer's liability will not exceed specified amount.

E.g. Customer sued Acquiree ABC for £ 500000.

Fair value of contingent liability = £ 200000

Acquiree provides guarantee of loss upto - A) 120000

B) 250000

A

B/Sheet

Liability	→	Contingent Liability	200000
Asset	→	Indemnification Asset	120000

B

Liability	→	Contingent Liability	200000
Asset	→	Indemnification Asset	200000

Note: We cannot recognise Indemnification Asset more than Liability recognised.

## Subsequent measurement

At each subsequent reporting period, measure Indemnification Asset on same basis.

It derecognises only when it collects the asset, sells it or loses the right

## 3. Assets Held for Sale (Ind AS 105)

An acquirer shall measure acquired Non Current Asset that is held for sale at acquisition date at Fair value less cost to sell.

4. Contingent Consideration Payable to acquiree measured at Acquisition date at Fair Value and forms part of P.C. if there is no service condition post Business Combination.

Subsequent measurement (if not a case of Remeasurement Period Window)

1. Contingent Consideration classified as Equity



Not Remeasured Subsequently

(Subsequent Settlement adjusted within Equity)

Other Contingent Consideration



measured at Fair Value at each reporting date and difference recognised in P/L.

## 5. Income taxes

Ind AS 103 allows recognition of DTA & DTL on initial recognition of assets acquired and liabilities assumed in Business Combination.

### b. LEASES

#### A. If Acquiree is a lessee

The acquirer shall measure lease liability at Present Value of remaining lease payments as if acquired lease were a new lease at acquisition date. Measure ROV Asset at same amount as lease liability, adjusted to reflect favourable/unfavourable terms when compared with market terms.

#### B. If Acquiree is a lessor

In measuring acquisition date Fair Value of Asset, the acquirer shall take into account terms of the lease.

## 7. Assembled Workforce

It is not an Identifiable asset and any value attributable to it is subsumes into Goodwill.

## 8. Intangible Asset

An Identifiable Intangible Assets if acquired in Business Combination is recognised at its Fair Value.

An acquirer recognises as an asset separately from Goodwill an In process research and development project if it meets the definition of intangible asset and is identifiable (i.e. separable from entity or arises from other contractual or legal rights).

## 9. Reacquired Rights

### Illustration 20

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?

	B/sheet	
Plc (Income)	100000	Bank 250000
Liability	250000	
(-) 4 yrs Amortization $\left\{ \frac{250000}{10} \times 4 \right\}$	(100000)	
Unamortised liability	150000	

To settle Pre Existing Relationship (i.e. existing licence), ABC Ltd should pay lower of - a) ₹ 180000 (150000 + 20%) or b) ₹ 450000 (Fair value)