



CHIRANJEEV JAIN
CLASSES

FOR CA - FINAL COURSE

QUESTION BANK
FOR
FINANCIAL REPORTING

**As per the New syllabus of Final issued by
Board of Studies of ICAI**

Volume IV - 15th Edition

**"IT'S TIME TO BE BUSY BECAUSE TODAY WILL
BE YESTERDAY VERY SOON"**

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Thanks in advance for helping us!

REMEMBER

“IN ORDER TO SUCCEED, WE MUST FIRST BELIEVE THAT WE CAN”

*Dedicated to
My Father Sri Mool Chand Jain
and
My Mother Smt. Sarala Devi Jain*

Think Beyond 90+ IN CA FINAL - Financial Reporting

STOP Memorizing Without Understanding the CONCEPTS

It's Time to Learn Accounts Conceptually

PREFACE

Financial Reporting is Paper 1 in Chartered Accountancy – Final Course. It is rightly so because Accounting is the language of business and without understanding accounting terminology, it is not possible to understand business and commerce. It is, therefore, essential for all CA students to possess knowledge of Financial Reporting concepts and practices.

The approach of the book is examination-oriented problems from ICAI Study Resource and solutions have also been included in all chapters as per ICAI Suggested solution. Examples and Illustration (mostly selected from ICAI Study Modules) have been included in the book to understand the IND AS concepts.

Recent question from ICAI RTP, MTP and Exam papers with answers have been included to help the students. Practical Question from Other Sources are also included in some of the chapters for better understanding of the concepts. Solutions for some of these questions may not be provided for which students may refer our class notes.

Considering the importance of the question bank and its practical implications, care has been taken to solve almost all the problems for the benefit of the students.

We are sure the book will prove extremely useful to CA Final students.

We are Thankful to all my students to have faith on me.

Suggestions from all readers would be highly appreciated and acknowledged.

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All the questions are divided in three categories for REVISION Purpose:

	<i>This colour indicates - such questions are based on direct concept, which can be answered without reading the solution if student retain the concept. Student can ignore such question at the time of revision if they have insufficient time.</i>
	<i>This colour indicates - such questions should be solved at least one time and identify mistake (if any) committed while understanding or solving the questions and such mistakes should be considered while doing revision.</i>
	<i>This colour indicates - such questions are important and requires sufficient practice. Such questions must be revised before Exam. Such Question should be practiced by writing.</i>

Disclaimer: In Exam, Questions can be asked from any categories.

Note: Before Exam CJ Sir will provide a set of expected questions for every attempt in which questions may be from any category. That question should be revised in the last revision before exam along with all the questions which student have marked.

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**“CA IS NOT HARD” IF U
“WORK HARD”**

CHAPTER 26

BUSINESS COMBINATION AS PER IND AS103

QUESTIONS FROM ICAI STUDY MATERIAL

Q1: Entity A holds 20% interest in Entity B. Subsequently Entity A, further acquires 50% share in Entity B by paying ₹ 300 Crores. Fair value of Entity B is ₹ 400 Crores

The fair value of assets acquired and Liabilities assumed are as follows:

Building	- ₹ 1000 Crores
Cash and Cash Equivalent -	₹ 200 Crores
Financial Liabilities	- ₹ 800 Crores
DTL	- ₹ 150 crores

Examine the above transaction is an asset acquisition or business acquisition.

Ans: Fair value of Entity B is ₹ 400 Crores

Fair value of NCI is ₹ 120 Crores (400 x 30%)

Fair value of Entity A's previously held interest is ₹ 80 Crores (400 x 20%)

Entity A needs to determine whether acquisition is an asset acquisition as per concentration test.

Fair value of consideration transferred (including fair value of non-controlling interest and fair value of previously interest held) = 300 + 120 + 80 = ₹ 500 Crores

Fair value of liability assumed (excluding deferred tax) – ₹ 800 crores

Cash and cash equivalent – ₹ 200 crores.

Fair value of gross assets acquired - ₹ 1,100 Crores

In the above scenario, substantially all fair value of gross assets acquired is concentrated in a single identifiable asset i.e. building. Hence it should be asset acquisition. (1,000 / 1,100 = 91% of value of gross assets is concentrated into single identifiable asset i.e. building). A Judgement is required to conclude on the word substantially as the same is not defined in the standard.

In our view we have considered 91% of the value as substantial to conclude the above transaction as asset acquisition.

Q2: An entity acquires an equipment and a patent in exchange for INR 1,000 crores cash and land. The fair value of the land is INR 400 crores and its carrying value is INR 100 crores. The fair values of the equipment and patent are estimated to be INR 500 crores and INR 1,000 crores, respectively. The equipment and patent relate to a product that has just recently been commercialised. The market for this product is still developing. Assume the entity incurred no

transaction costs. For ease of convenience, the tax consequences on the gain have been ignored. How should the transaction be accounted for?

Ans: As per paragraph 2(b) of Ind AS 103, the standard does not apply to “the acquisition of an asset or a group of assets that does not constitute a business. In such cases the acquirer shall identify and recognise the individual identifiable assets acquired and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill”.

In the given case, the acquisition of equipment and patent does not represent acquisition of a business.

The cost of the asset acquisition is determined based on the fair value of the assets given, unless the fair value of the assets received is more reliably determinable. In the given case, the fair value measurement of the land appears more reliable than the fair value estimate of the equipment and patent. Thus, the entity should record the acquisition of the equipment and patent as INR 1,400 crores (the total fair value of the consideration transferred).

Thus, the fair value of the consideration given, i.e., INR 1,400 crores is allocated to the individual assets acquired based on their relative estimated fair values. The entity should records a gain of INR 300 crores for the difference between the fair value and carrying value of the land.

The equipment is recorded at its relative fair value $((\text{INR } 500 / \text{INR } 1,500) \times \text{INR } 1,400 = \text{INR } 467 \text{ crores})$.

The patent is recorded at its relative fair value $((\text{INR } 1,000 / \text{INR } 1,500) \times \text{INR } 1,400 = \text{INR } 933 \text{ Crores})$.

Q3: 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 $[(\text{₹ } 2,50,000 \times 6/10) + 20\%]$.

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?

Ans: Paragraph B51 of Ind AS 103 provides that “the acquirer and acquiree may have a relationship that existed before they contemplated the business combination, referred to here as a ‘pre-existing relationship’. A pre-existing relationship between the acquirer and acquiree may be contractual (for example, vendor and customer or licensor and licensee) or non-contractual (for example, plaintiff and defendant).”

Further, paragraph B52 of Ind AS 103 provides that “if the business combination in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

- a) for a pre-existing non-contractual relationship (such as a lawsuit), fair value.
- b) for a pre-existing contractual relationship, the lesser of (i) and (ii):
 - i. the amount by which the contract is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.)
 - ii. the amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable.

If (ii) is less than (i), the difference is included as part of the business combination accounting. The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.”

Based on the above in the instant case, the license is recognised at ₹ 4,50,000, the fair value at market rates of a license based on the remaining contractual life.

The gain or loss on settlement of the contract is the lower of:

- ₹ 3,00,000, which is the amount by which the right is unfavorable to ABC Ltd. compared to market terms. This is the difference between the amount that ABC Ltd. could receive for granting a similar right, ₹ 4,50,000, compared to 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.

Q4: 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.

You are required to determine the goodwill to be recognised on acquisition.

Ans: Sita Ltd has more Board members and thereby have majority control in DLC. Therefore, Sita Ltd is identified as acquirer and Beta Ltd as acquiree.

Since no consideration has been transferred, the goodwill needs to be calculated as the difference of Part A and Part B:

Part A:

Consideration paid by Acquirer.	Nil
Non-Controlling Interest in Acquiree	₹ 80 crores
Acquirer's previously held interest	Nil

Part B:

Fair value of net identifiable asset	₹ 70 crores
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Goodwill is recognised as ₹ 10 crores (80 – 70 crores) in business combination achieved through contract alone when NCI is measured at fair value.

Q5: 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 years. 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 payment awards (replacement award). Under the replacement awards, the vesting period is reduced to 2 year (from the acquisition date).

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

- original awards: INR 500
- replacement awards: INR 600.

As of the acquisition date, all awards are expected to vest

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 (INR 500) will be multiplied by the service rendered upto acquisition date (2 years) multiplied by greater of original vesting period (5 years) or new vesting period (4 years). Accordingly, $500 \times \frac{2}{5} = 200$ 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.

Q6: 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 INR 500 (based on measurement principles and conditions at the acquisition date as per Ind AS 102).

Ans: 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 an compensation expenses.

Q7: Entity X acquired 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 have already lapsed at the date of such business acquisition. Entity X agreed to replace the existing award for the employees of combined entity. The details are as below –

Acquisition date fair value of share-based payment plan	300
Number of years to vest after acquisition	1 year
Fair Value of award which replaces existing plan	400
Calculate the share-based payment values?	

Ans:

Pre-acquisition period	= 2
Post-acquisition period	= 1
Total fair value at acquisition date =	300
Value to be recorded as per business combination under Ind AS 103 = $300/3 \times 2 =$	200
Value to be recorded as per Ind AS 102 (A) = $300/3 \times 1 =$	100
Fair value of the replacement of such award =	400
Difference from acquisition date fair value (B) = $400 - 300 =$	100
Total value to be accounted over vesting period as per Ind AS 102 = $A + B = 100 + 100 =$	200

Q8: Indemnification assets

a) 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 INR 2 crores. XYZ Ltd. Has indemnified ABC Ltd. for the losses, if any, due to the case for amount up to INR 1 crore. The fair value of the contingent liability for the court case is INR 70 lakhs.

How should ABC Ltd. account for the contingent liability and the indemnification asset?

b) ABC Ltd. acquires PQR Ltd. in July 2017. PQR Ltd. is in dispute with local tax authorities over its tax return for 2015. ABC Ltd. receives an indemnity from the selling shareholder(s) of PQR Ltd. to cover the outcome of the tax dispute. ABC Ltd. ascertains that an outflow in relation to the tax case is probable and estimates the amount

expected to be paid as INR 25 lakhs i.e., the full amount being claimed by the tax authorities. The fair value of the liability is INR 17.4 lakhs.

Paragraph 24 of Ind AS 103 requires the acquirer to recognise and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with Ind AS 12, Income Taxes. Thus, ABC Ltd. recognised a liability of INR 25 lakhs. If the tax authorities require this amount to be paid, the seller of PQR Ltd. will pay ABC Ltd. the full INR 25 lakhs. ABC Ltd. considers the credit worthiness of selling shareholders' of PQR Ltd. to be such that the indemnification asset is fully collectible. How should indemnification asset be accounted for?

- c) ABC Ltd. pays INR 50 crores 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 INR 10 crores. The class actions have not specified amounts of damages and past experience suggests that claims may be up to INR 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?

Ans: An acquirer recognises indemnification asset at the same time and measures them on the same basis as the indemnified item, subject to contractual limitations and adjustments for collectability, if applicable.

- a) In the current scenario, ABC Ltd. measures the identifiable liability of entity PQR Ltd. at INR 70 lakhs and also recognises a corresponding asset of INR 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 INR 1 crore (for example INR 1.2 crores), the asset will be limited to INR 1 crore.
- b) ABC Ltd. recognises an indemnification asset of INR 25 lakhs which is measured on the same basis as the indemnified liability as no adjustment has been required for collectability or contractual limitations on the indemnified amount.
- c) 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.

Further, ABC Ltd. is required to make the necessary disclosures for contingent consideration arrangements and indemnification assets as required by paragraph B64 (g) of Ind AS 103.

Q9: How should contingent consideration payable in relation to a business combination be accounted for on initial recognition and at the subsequent measurement as per Ind AS in the following cases:

- (i) 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.
 - i. 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.
 - ii. 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.
- (ii) Continuing with the fact pattern in (a) above except for:
- c. The number of shares to be issued after one year is not fixed.
 - d. 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.

[RTP May 2019; RTP Nov 2022]

Ans: Paragraph 37 of Ind AS 103, inter alia, provides that the consideration transferred in a business combination should be measured at fair value, which should be calculated as the sum of

- (a) the acquisition-date fair values of the assets transferred by the acquirer,
- (b) the liabilities incurred by the acquirer to former owners of the acquiree and
- (c) the equity interests issued by the acquirer.

Further, paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 or other applicable Ind AS, i.e., for the rare case of non-financial contingent consideration. Paragraph 40 provides that the acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of Ind AS 32, Financial Instruments: Presentation. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.

- (i) In the given case the amount of purchase consideration to be recognized on initial recognition shall be as follows:

Fair value of shares issued (10,00,000 x ₹20)

₹2,00,00,000

Fair value of contingent consideration	₹25,00,000
Total purchase consideration	₹2,25,00,000
Subsequent measurement of contingent consideration payable for business combination	

In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

- (a) There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavorable conditions (for the issuer of the instrument).
- (b) If the instrument will or may be settled in the issuer's own equity instruments, then it is:
 - (i) a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or
 - (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfilment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

Here, the obligation to pay contingent consideration amounting to ₹25,00,000 is recognized as a part of equity and therefore not re-measured subsequently or on issuance of shares.

- (ii) The amount of purchase consideration to be recognized on initial recognition is shall be as follows:

Fair value shares issued (10,00,000 x ₹20)	₹2,00,00,000
Fair value of contingent consideration	₹25,00,000
Total purchase consideration	₹2,25,00,000
Subsequent measurement of contingent consideration payable for business combination	

The contingent consideration will be classified as liability as per Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration not classified as equity should be measured at fair value at each reporting date and changes in fair value should be recognized in profit or loss.

As at 31 March 2017, (being the date of settlement of contingent consideration), the liability would be measured at its fair value and the resulting loss of ₹15,00,000 (₹40,00,000 - ₹25,00,000) should be recognized in the profit or loss for the period. A Ltd. would recognize issuance of 160,000 (₹40,00,000/25) shares at a premium of ₹15 per share.

Q10: In March 2018, Pharma Ltd. acquires Dorman Ltd. in a business combination for a total cost of ₹ 12,000 lakhs. At that time Dorman Ltd.'s assets and liabilities are as follows:

Assets	₹ in lakhs
Cash	780
Receivables (net)	5,200
Plant and equipment	7,000
Deferred tax asset	360
Liabilities	
Payables	1,050
Borrowings	4,900
Employee entitlement liabilities	900
Deferred tax liability	300

The plant and equipment has a fair value of ₹ 8,000 lakhs and a tax written down value of ₹ 6,000 lakhs. The receivables are short-term trade receivables net of a doubtful debts allowance of ₹ 300 lakhs.

Bad debts are deductible for tax purposes when written off against the allowance account by Dorman Ltd. Employee benefit liabilities are deductible for tax when paid.

Dorman Ltd. owns a popular brand name that meets the recognition criteria for intangible assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of ₹ 4.300 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.

The tax rate of 30% can be considered for all items. Assume that unless otherwise stated, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to:

- (i) Calculate deferred tax assets and liabilities arising from the business combination (do not offset deferred tax assets and liabilities)
- (ii) Calculate the goodwill that should be accounted on consolidation. [MTP May 2019]

Ans: Breakdown of assets and liabilities acquired as part of the business combination, including deferred taxes and goodwill.

₹ In lakhs

	Book value	Fair value	Tax base	Taxable (deductible) temporary difference	Deferred tax asset (liability) @ 30%
Cash	780	780 ¹	780 ¹	-	-
Receivables	5,200	5,200 ¹	5,500 ³	(300)	90
Plant and equipment	7,000	8,000 ²	6,000 ⁴	2,000	(600)
Brands		4,300 ²	- ⁵	4,300	(1,290)
Goodwill (Balancing figure)		2,100 ⁹			
Deferred tax asset	360	3,60 ⁷			
Total assets		20,740			
Payables	(1,050)	(1,050) ₁	(1,050) ¹		
Borrowings	(4,900)	(4,900) ₁	(4,900) ¹		
Employee Entitlement liabilities	(900)	(900) ¹	- ⁶	(900)	270
Deferred tax liability	(300)	(1,890) ₈			
Total liabilities		(8,740)			
Consideration paid		12,000			

Notes :

- (1) This amount has been derived from Dorman Ltd.'s Balance Sheet as it is stated that 'unless otherwise stated, all items have a fair value and tax base equal to their carrying amounts in Dorman Ltd.'s Balance Sheet at the acquisition date'.
- (2) Stated fair value in the fact pattern (different to the carrying amount in Dorman Ltd.'s Balance Sheet at the acquisition date).
- (3) Because bad debts are only deductible when written off against the allowance account by Dorman Ltd. the tax base of the receivables is their gross value, i.e., (₹ 5,200 + ₹ 300) lakhs allowance account.
- (4) Tax written down value of the plant and equipment as stated in the fact pattern.
- (5) As the brand name does not have a cost for tax purposes and no tax deduction is available in relation to it, its tax base is nil.
- (6) As the employee entitlement liabilities are only deductible for tax purposes when paid, their tax base is nil.
- (7) The aggregate deferred tax asset is ₹ 360 lakhs, comprised of ₹90 lakhs in relation to the receivables and ₹270 lakhs in relation to the employee entitlement liabilities.
- (8) The aggregate deferred tax liability is ₹ 1,890 lakhs calculated as follows:

₹ In lakhs	DTL amount in Dorman Ltd.'s Balance Sheet	Deferred tax impact of fair value adjustments	Total DTL in Pharma Ltd's consolidated financial statements
Plant and equipment	300 ([7,000-6,000] × 30%)	300 ([1,000 × 30%)	600
Brand names	0	1,290 (4,300 × 30%)	1,290
TOTAL	300	1,590	1,890

- (9) Goodwill is effectively the 'balancing item' in the equation, applying the requirements of Ind AS 103, para 32. The consideration transferred is ₹ 12,000 lakhs and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with Ind AS 103, including the deferred tax assets and liabilities arising, is ₹ 9,900 lakhs.

Q11: ABC Ltd. acquired XYZ Ltd. on 28 February 2017. As part of the acquisition accounting, ABC Ltd. recognised a provisional amount of INR 1 crore in respect of a patent developed by XYZ Ltd. However, the technology covered by the patent was new and ABC Ltd. expected the cash flows to be generated by the patent to increase beyond those being generated at the time. Accordingly, ABC Ltd. sought an independent valuation report from a third party consultant, which was not expected to be finalised for several months. ABC Ltd. assessed the useful life of the patent to be 10 years. Goodwill of INR 1.2 crores was recognised in the provisional accounting.

The consolidated financial statements of ABC Ltd. as at 31 March 2017 included appropriate disclosures about the provisional accounting. The valuation report is finalised subsequent to the issuance of the financial statements of the year 2016-17 but before the end of the measurement period. Based on the valuation, ABC Ltd. concludes that the fair value of the patent was INR 1.5 crores. Management does not revise the estimated useful life of the patent, which remains at 10 years.

Whether ABC Ltd. is required to restate the comparative information for the year 2016-17 presented in the financial statements of the year 2017-18?

Ans: Paragraph 45 of Ind AS 103 provides that if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer should report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer should retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

In accordance with above, the acquirer should revise comparative information for prior periods presented in financial statements as required, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

Based on above, the comparative information presented in the financial statements for the year 2017-18 needs to be restated for the measurement period adjustment as follows:

	31 March 2017	As stated originally Revised
Profit or loss (patent amortisation)	83,333(1)	125,000 (2)
Goodwill	1,20,00,000	70,00,000 (3)
Patent	99,16,667 (4)	1,48,75,000 (5)

Notes:

1. $1,00,00,000 \times 1/10 \times 1/12$
2. $1,50,00,000 \times 1/10 \times 1/12$
3. $1,20,00,000 - 50,00,000$
4. $1,00,00,000 - 83,333$
5. $1,50,00,000 - 125,000$

Q12: Scenario 1: New information on the fair value of an 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.

Ans: Scenario 1: The new information obtained by F subsequent to the acquisition relates to facts and circumstances that existed at the acquisition date. Accordingly, an adjustment (i.e., decrease) to in the provisional amount should be recognised for loan to B with a corresponding increase in goodwill.

Scenario 2: Basis this, the fair value of the loan to B will be less than the amount recognised earlier at the acquisition date. The new information resulting in the change in the estimated fair value of the loan to B does not relate to facts and circumstances that existed at the acquisition date, but rather is due to a new event i.e., the loss of a major customer subsequent to the acquisition date. Therefore, based on the new information, F should determine and recognise an allowance for loss on the loan in accordance with Ind AS 109, Financial Instruments: Recognition and Measurement, with a corresponding charge to profit or loss; goodwill is not adjusted.

Q13: **Scenario 1:** 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. Shareholders B, C and D have entered into a shareholders' agreement in terms of governance of ABC Ltd. and XYZ Ltd. due to which they exercise joint control.

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

Scenario 2: 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?

Ans: 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 both before and after the business combination, and that control is not transitory.

As per paragraphs 6 and 7 of Appendix C to Ind AS 103, an entity can be controlled by an individual, or by a group of individuals acting together under a contractual arrangement, and that individual or group of individuals may not be subject to the financial reporting requirements of Ind AS. Therefore, it is not necessary for combining entities to be included as part of the same consolidated financial statements for a business combination to be regarded as one having entities under common control. Also, a group of individuals are regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities, and that ultimate collective power is not transitory.

Scenario 1: In the instant case, both ABC Ltd. and XYZ Ltd. are jointly controlled by group of individuals (B, C and D) as a result of contractual arrangement. Therefore, in the current scenario, ABC Ltd. and XYZ Ltd. are considered to be under common control.

Scenario 2: 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.

Q14: ABC Ltd. had a subsidiary, namely, X Ltd. which was acquired on 1st April, 2XX0. ABC Ltd. acquires all 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.?

Ans: Appendix C to Ind AS 103 defines common control business combination as 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.

As per paragraph 7 of Appendix C to Ind AS 103, a group of individuals are regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the

power to govern its financial and operating policies so as to obtain benefits from its activities, and that ultimate collective power is not transitory.

The term 'transitory' has been included as part of Appendix C to Ind AS 103.

The word 'transitory' has been included in the common control definition to ensure that acquisition accounting applies to those transactions that look as though they are combinations involving entities under common control, but which in fact represent genuine substantive business combinations with unrelated parties.

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

Q15: 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.

Ans: Paragraph 9(iii) of 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.

Q16: On 1 January 20X5 AC acquires 80 per cent of the equity interests of TC, a private entity, in exchange for cash of ₹ 150. Because the former owners of TC needed to dispose of their investments in TC by a specified date, they did not have sufficient time to market TC to multiple potential buyers. The management of AC initially measures the separately recognisable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of IND AS103. The identifiable assets are measured at ₹ 250 and the liabilities assumed are measured at ₹50. AC engages an independent consultant, who determines that the fair value of the 20 per cent non-controlling interest in TC is ₹ 42.

The amount of TC's identifiable net assets (₹ 200, calculated as ₹ 250 – ₹ 50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TC. Therefore, AC reviews 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 TC and the consideration transferred. After that review, AC decides that the procedures and resulting measures were appropriate.

Calculate the gain or loss on acquisition and also show the journal entries for accounting of its acquisition. Also calculate the value of the non-controlling interest on the basis of proportionate interest method, if alternatively applied? **[IBS CS MTP May 24]**

Ans: Goodwill/bargain purchase gain

AC measures the gain on its purchase of the 80 per cent interest as follows:

	₹	₹
Amount of the identifiable net assets acquired (₹250 – ₹50)		200
Less: Fair value of the consideration transferred for		
AC's 80 per cent interest in TC; plus	150	
Fair value of non-controlling interest in TC	42	192
Gain on bargain purchase of 80 per cent interest		8

AC would record its acquisition of TC in its consolidated financial statements as follows:

	₹	₹
Dr Identifiable assets acquired	250	
Cr Cash		150
Cr Liabilities assumed		50

Cr Gain on the bargain purchase	8
Cr Equity – non-controlling interest in TC	42

If the acquirer chose to measure the non-controlling interest in TC on the basis of its proportionate interest in the identifiable net assets of the acquiree, the recognised amount of the non-controlling interest would be ₹40 ($₹200 \times 0.20$). The gain on the bargain purchase then would be ₹10 ($₹200 - (₹150 + ₹40)$).

Q17: On 1 April 2016, Company PQR Ltd. acquired 30% of the voting ordinary shares of Company XYZ Ltd. for INR 8,000 crores. PQR Ltd. accounts its investment in XYZ Ltd. using equity method as prescribed under Ind AS 28, Investments in Associates and Joint Ventures. At 31 March 2017, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

	(Amounts in INR-crores)
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 31 March 2017 was therefore 8,850 ($8,000 + 700 + 100 + 50$).

On 1 April 2017, PQR Ltd. acquired the remaining 70% of XYZ Ltd. for cash of INR 25,000 crores. The following additional information is relevant at that date.

	(Amount in INR-crores)
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? **[RTP May 2024; May 25]**

Ans: Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

Applying the above, PQR Ltd. records the following entry in its consolidated financial statements:

	(Amounts in INR-crores)	
	Debit	Credit
Identifiable net assets of XYZ Ltd.	30,000	
Goodwill (1)	4,000	
Foreign currency translation reserve	100	

PPE revaluation reserve	50	
Cash	25,000	
Investment in associate -XYZ Ltd.		8,850
Retained earnings (2)		50
Gain on previously held interest in XYZ recognised in Profit or loss (3)		250
(To recognise acquisition of XYZ Ltd.)		

Notes:

- Goodwill calculated as follows:

	INR
Cash consideration	25,000
Fair value of previously held equity interest in XYZ Ltd.	9,000
Total consideration	34,000
Fair value of identifiable net assets acquired	(30,000)
Goodwill	4,000
- The credit to retained earnings represents the reversal of the unrealised gain of INR 50 crores in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.
- The gain on the previously held equity interest in XYZ Ltd. is calculated as follows:

Fair Value of 30% interest in XYZ Ltd. at 1 April 2017	9,000
Carrying amount of interest in XYZ Ltd. at 1 April 2017	(8,850)
	150
Unrealised gain previously recognised in OCI	100
Gain on previously held interest in XYZ Ltd. recognised in profit or loss	250

Q18: Company A and Company B are in power business. Company A holds 25% of equity shares of Company B. On November 1, 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 November 1. The market price of Company A's shares on the date of issue is ₹ 10 per share. The equity shares issued as per this transaction will comprise 5% of the post-acquisition equity capital of Company A.
- ◆ **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 November 1, the investment is included in Company A's consolidated statement of financial position at ₹ 6,00,000, accounted for using the equity method; the fair value is ₹ 20,00,000.

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

Required: Determine the accounting under acquisition method for the business combination by Company A. **[MTP Jan 26]**

Ans: Let us evaluate each of the steps discussed in the above analysis:

Identify the acquirer

In this case, Company A has paid cash consideration to shareholders of Company B. Further, the shares issued to Company B pursuant to the acquisition do not transfer control of Company A to erstwhile shareholders of Company B. Therefore, Company A is the acquirer and Company B is the acquiree.

Determine acquisition date

As the control over the business of Company B is transferred to Company A on November 1, that date is considered as the acquisition date.

Determine the purchase consideration

The purchase consideration in this case will comprise the following:

Cash consideration	₹ 59,00,000
Equity shares issued (1,00,000 x 10 i.e., at fair value)	₹ 10,00,000
Contingent consideration (at fair value)	₹ 3,00,000
Fair value of previously held interest	₹ 20,00,000
As such, the total purchase consideration is	₹ 92,00,000.

Acquisition cost incurred by and on behalf of the Company A for acquisition of Company B should be recognised in the Statement of profit and loss. As such, an amount of ₹ 1,00,000 should be recognised in Statement of profit and loss.

Determine fair value of identifiable assets and liabilities

The fair value of identifiable net assets is determined at ₹ 60,00,000.

Measure NCI

The management has decided to recognise the NCI at its fair value. As such, the NCI will be recognised at ₹ 7,50,000.

Re-measure previously held interests in case business combination is achieved in stages

In this case, the control has been acquired in stages i.e., before acquisition to control, the Company A exercised significant influence over Company B. As such, the previously held interest should be measured at fair value and the difference between the fair value and the carrying amount as at the acquisition date should be recognised in Statement of Profit and Loss. As such, an amount of ₹ 14,00,000 (i.e., 20,00,000 less 6,00,000) will be recognised in Statement of profit and loss.

Determination of goodwill or gain on bargain purchase

Goodwill should be calculated as follows:	(₹)
Total consideration	92,00,000
Recognised amount of any non-controlling interest	7,50,000
Less: fair value of Lila-Domestic's net identifiable assets	(60,00,000)
Goodwill	39,50,000

Q19: Enterprise Ltd. has 2 divisions Laptops and Mobiles. Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses.

On 31st March, 20X2, the division-wise draft extract of the Balance Sheet was: (₹ in crores)

	Laptops	Mobiles	Total
Fixed assets cost	250	500	750
Depreciation	(225)	(400)	(625)
Net Assets (A)	25	100	125
Current assets:	200	500	700
Less: Current liabilities	(25)	(400)	(425)
(B)	175	100	275
Total (A+B)	200	200	400
Financed by:			
Loan funds	-	300	300
Capital : Equity ₹ 10 each	25	-	25
Surplus	175	(100)	75
	200	200	400

Division Mobiles along with its assets and liabilities was sold for ₹ 25 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of Enterprise Ltd. in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of the Enterprise Ltd was holding 52% shareholding of the Company.

Assuming that there are no other transactions, you are asked to:

- (i) Pass journal entries in the books of Enterprise Ltd.
- (ii) Prepare the Balance Sheet of Enterprise Ltd. after the entries in (i).
- (iii) Prepare the Balance Sheet of Turnaround Ltd.

Balance Sheet prepared for (ii) and (iii) above should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013. Provide Notes to Accounts, for 'Other Equity' in case of (ii) and 'Share Capital' in case of (iii), only. **[Exam May 2018 (10 Marks); IBS CS19]**

Ans: **Journal of Enterprise Ltd.**

(₹ in crores)

			Dr.	Cr.
(1)	Loan Funds	Dr.	300	
	Current Liabilities	Dr.	400	
	Provision for Depreciation	Dr.	400	
	To Property, Plant and Equipment			500
	To Current Assets			500
	To Capital Reserve			100
	(Being division Mobiles along with its assets and liabilities sold to Turnaround Ltd. for ₹ 25 crores)			

Notes :

1. Any other alternative set of entries, with the same net effect on various accounts, may be given by the students.
2. In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded as capital reserve in the books of demerged entity (Enterprise Ltd).

Enterprise Ltd.

Balance Sheet after reconstruction

(₹ in crores)

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		25
Current assets		

Other current assets		200
		<u>225</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹ 10 each)		25
Other equity (Surplus)		175
Liabilities		
Current liabilities		25
Current liabilities		
		<u>225</u>

Notes to Accounts

		(₹ in crores)
1. Other Equity		
Surplus (175-100)		75
Add: Capital Reserve on reconstruction		<u>100</u>
		<u>175</u>

Notes to Accounts: Consequent on transfer of Division Mobiles to newly incorporated company Turnaround Ltd., the members of the company have been allotted 1 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share of Turnaround Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

Balance Sheet of Turnaround Ltd.

(₹ in crores)

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		100
Current assets		
Other current assets		<u>500</u>
		<u>600</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹ 10 each)	1	10
Other equity	2	(110)
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings		300

Current liabilities		
Current liabilities		400
		<u>600</u>

Notes to Accounts

	(₹ in crores)
1. Share Capital:	
Issued and Paid-up capital	
1 crore Equity shares of ₹ 10 each fully paid up	10
(All the above shares have been issued for consideration other than cash, to the members of Enterprise Ltd. on takeover of Division Mobiles from Enterprise Ltd.)	
2. Other Equity:	
Securities Premium	15
Capital reserve [25- (600 – 700)]	<u>(125)</u>
	<u>(110)</u>

Working Note:

In the given case, since both the entities are under common control, this will be accounted as follows:

- All assets and liabilities will be recorded at book value
- Identity of reserves to be maintained.
- No goodwill will be recorded.
- Securities issued will be recorded as per the nominal value

Q20: Maxi Mini Ltd. has 2 divisions - Maxi and Mini. The draft information of assets and liabilities as at 31st October, 20X2 was as under:

	Maxi division	Mini division	Total
			(in crores)
Fixed assets:			
Cost	600	300	900
Depreciation	(500)	(100)	(600)
W.D.V. (A)	100	200	300
Net current assets:			

Current assets	400	300	700
Less: Current liabilities	(100)	(100)	(200)
(B)	300	200	500
Total (A+B)	400	400	800
Financed by :			
Loan funds (A)	–	100	100
(secured by a charge on fixed assets)			
Own funds:			
Equity capital			50
(fully paid up ₹ 10 shares)			
Reserves and surplus			650
(B)	?	?	700
Total (A+B)	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 to take over 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 Ltd. in full settlement of the consideration. The members of Maxi Mini Ltd. are therefore to become members of Mini Ltd. as well without having to make any further investment.

- (a) 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 Sheets of the 2 companies as on the morning of 1st November, 20X2, showing corresponding previous year's figures.
- (b) The directors of the 2 companies ask you to find out the net asset value of equity shares pre and post demerger.
- (c) Comment on the impact of demerger on "shareholders wealth". [May 2018]

Ans: (a) Demerged Company: Mini Division of "Maxi Mini Ltd"
Resulting Company: "Mini Ltd."

Journal of Maxi Mini Ltd. (Demerged Company)

			(₹ in crores)	
			Dr.	Cr.
Current liabilities A/c		Dr.	100	
Loan fund (secured) A/c		Dr.	100	
Provision for depreciation A/c		Dr.	100	

Loss on reconstruction (Balancing figure)	Dr.	300	
To Property, Plant and Equipment A/c			300
To Current assets A/c			300
(Being the assets and liabilities of Mini division taken out of the books on transfer of the division to Mini Ltd., the consideration being allotment to the members of the company of one equity share of ₹ 10 each of that company at par for every share held in the company vide scheme of reorganisation)			

Note: Any other alternatives set of entries, with the same net effect on various accounts, may be given by the students. In the absence of additional information on fair value of the assets transferred it has been assumed that the group of shareholders control both the demerged and the resultant entity. It is expected that students should evaluate all reorganization from common control parameters and aptly highlight the assumptions in the note while solving the question.

Journal of Mini Ltd.

		<i>(₹ in crores)</i>	
		<i>Dr.</i>	<i>Cr.</i>
Property, Plant and Equipment (300-100) A/c	Dr.	200	
Current assets A/c	Dr.	300	
To Current Liabilities A/c			100
To Secured loan funds A/c			100
To Equity share capital A/c			50
To Capital reserve			250
(Being the assets and liabilities of Mini division of Maxi Mini Ltd. taken over and allotment of 5 crores equity shares of ₹ 10 each at part as fully paid up to the members of Maxi Mini Ltd.)			

Maxi Mini Ltd. Balance Sheet as at 1st November, 20X2

₹ in crore

ASSETS	Note No.	After Reconstruction	Before Reconstruction
Non-current assets	2		
Property, Plant and Equipment		100	300
Current assets			
Other current assets		400	700
		500	1,000
EQUITY AND LIABILITIES			
Equity			

Equity share capital (of face value of ₹ 10 each)		50	50
Other equity	1	350	650
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings		-	100
Current liabilities			
Current liabilities		100	200
		500	1,000

Notes to Accounts

		<i>After Reconstruction</i>	<i>Before Reconstruction</i>
1.	Other Equity		
	Other Equity	650	650
	Less: Loss on reconstruction	<u>(300)</u>	<u>—</u>
		<u>350</u>	<u>650</u>
2.	Property, Plant and Equipment	600	900
	Less: Depreciation	<u>(500)</u>	<u>(600)</u>
		<u>100</u>	<u>300</u>

Notes to Accounts: Consequent on reconstruction of the company and transfer of Mini division to newly incorporated company Mini Ltd., the members of the company have been allotted 5 crores equity shares of ₹ 10 each at part of Mini Ltd. The demerged entity and the resultant entity are common control and accordingly the transaction has been accounted at book values of the assets transferred in both the entity.

Mini Ltd. Balance Sheet as at 1st November, 20X2

₹ in crore

ASSETS	Note No.	After reconstruction
Non-current assets		
Property, Plant and Equipment		200
Current assets		
Other current assets		<u>300</u>
		<u>500</u>
EQUITY AND LIABILITIES		
Equity		

Equity share capital (of face value of ₹ 10 each)		50
Other equity (capital reserve)		250
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings		100
Current liabilities		
Current liabilities		100
		500

Notes to Account

	(₹ in crores)
1. Share Capital:	
Issued and paid up :	
5 crores Equity shares of ₹ 10 each fully paid up	50
(All the above shares have been issued for consideration other than cash, to the members of Maxi Mini Ltd., on takeover of Mini division from Maxi Mini Ltd.)	

(b) Net asset value of an equity share

	Pre-demerger	Post-demerge
Maxi Mini Ltd. :	₹ 700 crores /5 crores	₹ 400 crores/5 crores
	140	= ₹ 80
Mini Ltd.:		₹ 300 crores/ 5 crores
		= ₹ 60

(c) Demerger into two companies has had no impact on “net asset value” of shareholding. Pre- demerger, it was ₹ 140 per share. After demerger, it is ₹ 80 plus ₹ 60 i.e. ₹ 140 per original share.

It is only yield valuation that is expected to change because of separate focusing on two distinct businesses whereby profitability is likely to improve on account of demerger.

Q21: AX Ltd. and BX Ltd. amalgamated on and from 1st January 20X2. A new Company ABX Ltd. was formed to take over the businesses of the existing companies.

Summarized Balance Sheet as on 31-12-20X2

INR in '000

ASSETS	Note No.	AX Ltd	BX Ltd
Non-current assets			
Property, Plant and Equipment		8,500	7,500

Financial assets			
Investments		1,050	550
Current assets			
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			
Equity share capital (of face value of INR 10 each)		6,000	7,000
Other equity		3,050	2,700
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings		3,000	4,000
Current liabilities			
Trade payable		1,000	1,500
		13,050	15,200

Notes to Accounts:

	AX Limited ₹	BX Limited ₹
Other equity		
General reserve	1,500	2,000
Profit & Loss	1,000	5,00
Investment allowance reserve	500	1,00
Export profit reserve	50	1,00
	3,050	2,700

ABX Ltd. issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies.

Prepare a note showing purchase consideration and discharge thereof and draft the Balance Sheet of ABX Ltd:

- a. Assuming that both the entities are under common control
- b. Assuming BX Ltd is a larger entity and their management will take the control of the entity.

The fair value of net assets of AX and BX limited are as follows:

Assets	AX Ltd. ('000)	BX Ltd. ('000)
Fixed assets	9,500	10,000
Inventory	1,300	2,900
Fair value of the business	11,000	14,000

Ans: (a) Assumption: Common control transaction)

1. Calculation of Purchase Consideration

		AX Ltd.		BX Ltd.
		₹ '000		₹ '000
<i>Assets taken over:</i>				
Property, Plant and Equipment		85,00		75,00
Investment		10,50		5,50
Inventory		12,50		27,50
Trade receivables		18,00		40,00
Cash & Cash equivalent		<u>4,50</u>		<u>4,00</u>
Gross Assets		130,50		152,00
<i>Less : Liabilities</i>				
12% Debentures	30,00		40,00	
Trade payables	<u>10,00</u>	<u>(40,00)</u>	<u>15,00</u>	<u>(55,00)</u>
Net Assets taken over		90,50		97,00
<i>Less: Other Equity:</i>				
General Reserve	15,00		20,00	
P & L A/c	10,00		5,00	
Investment Allowance Reserve	5,00		1,00	
Export Profit Reserve	<u>50</u>	<u>(30,50)</u>	<u>1,00</u>	<u>(27,00)</u>
Purchase Consideration		<u>60,00</u>		<u>70,00</u>

Total Purchase Consideration = 130,00 (60,00 of AX Ltd. & 70,00 of BX Ltd.)

2. Discharge of Purchase Consideration

No. of shares to be issued to AX Ltd =(Net Assets taken over of AX Ltd/ Net Assets taken over of AX Ltd. and BX Ltd.) X Purchase Consideration

No. of shares to be issued to BX Ltd = Net Assets taken over of BX Ltd./ Net Assets taken over of AX Ltd. and BX Ltd. x Purchase Consideration

	<i>AX Ltd.</i>	<i>BX Ltd.</i>
	₹ '000	₹ '000
$130,00 \times \frac{90,50}{187,50} = 6,27,500$	62,75	
* Equity shares of ₹ 10 each		
$130,00 \times \frac{97,00}{187,50} = 6,72,500$		67,25
Equity shares of ₹ 10 each		

Balance Sheet of ABX Ltd. as on 1.1.20X2

₹ in '000

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		16,000
Financial assets		
Investments		1,600
Current assets		
Inventory		4,000
Trade receivable		5,800
Cash and Cash equivalent		<u>850</u>
		<u>28,250</u>
EQUITY AND LIABILITIES		
Equity	1	
Equity share capital (of face value of ₹ 10 each)		13,000
Other equity	2	5,750
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings	3	7,000
Current liabilities		
Trade payable		2,500
		28,250

Notes to Accounts

		(₹ 000)	(₹ 000)
1.	Share Capital		
	13,00,000 Equity Shares of ₹ 10 each		130,00
2.			

	Other Equity	35,00	
	General Reserve (15,00 + 20,00)	15,00	
	Profit & Loss (10,00 + 5,00)	6,00	
	Investment Allowance Reserve (5,00 + 1,00)	<u>1,50</u>	57,50
3.	Export Profit Reserve (50 + 1,00)		70,00
	Long Term Borrowings		
	12% Debentures		

(b) Assuming BX Ltd is a larger entity and their management will take the control of the entity ABX Ltd.

In this case BX Ltd. and AX Ltd. are not under common control and hence accounting prescribed under Ind AS 103 for business combination will be applied. A question arises here is who is the accounting acquirer ABX Ltd which is issuing the shares or AX Ltd. or BX Ltd. As per the accounting guidance provided in Ind AS 103, sometimes the legal acquirer may not be the accounting acquirer. In the given scenario although ABX Ltd. is issuing the shares but BX Ltd. post-merger will have control and is bigger in size which is a clear indicator that BX Ltd. will be an accounting acquirer. This can be justified by the following table: (In '000s)

	AX Ltd.	BX Ltd.
Fair Value	11,000	14,000
Value per share	10	10
No. of shares	1,100	1,400
i.e. Total No. of shares in ABX Ltd. = 2,500 thousand shares		
Thus, % Held by each Company in Combined Entity	44%	56%

Note: It is a case of Reverse Acquisition.

Accordingly, BX Ltd. assets will be recorded at historical cost in the merged financial statements.

(1) Calculation of Purchase Consideration (All figures are in thousands)

We need to calculate the number of shares to be issued by BX Ltd. to AX Ltd. to maintain the same percentage i.e. 56%:

Thus, 700 thousand shares of BX Ltd. (given in the balance sheet) represents 56%. This means that total no. of shares would be 1,250 thousand shares ie 700 thousand shares / 56%.

This implies BX Ltd. would need to issue 550 thousand shares (1,250 less 700) to AX Ltd.

Purchase Consideration = 550 thousand shares x ₹ 20 per share (ie. 14,000 thousand / 700 thousand shares) = ₹ 11,000 thousand.

Balance Sheet of ABX Ltd. as on 1.1.20X2

₹ in 000

ASSETS	Note No.	Amount
Non-current assets		
Goodwill (Refer Working Note)		900
Property, Plant and Equipment (9500+7500)		17,000
Financial assets		
Investment (1050+550)		1,600
Current assets		
Inventory (1300+2750)		4,050
Trade receivables (1800+4000)		5,800
Cash and Cash equivalent (450+400)		<u>850</u>
		<u>30,200</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹ 10 each)	1	12,500
Other equity	2	8,200
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings (12% Debentures)	3	7,000
Current liabilities		
Trade payables		2,500
		30,200

Notes to Accounts

		(₹ 000)	(₹ 000)
1. Share Capital			
	1,250,000 Equity Shares of ₹ 10 each (700,000 to BX Ltd and 550,000 as computed above to AX LTD)		1,25,00
2. Other Equity			
	General reserve of BX Ltd	20,00	
	P&L of BX Ltd	5,00	
	Export Profit Reserve of BX Ltd	1,00	
	Investment Allowance Reserve of BX Ltd	1,00	
	Security Premium (550 shares x 10)	<u>5,500</u>	8,200
3. Long Term Borrowings			

12% Debentures	70,00
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Working Note: Goodwill Computation:

Assets:	₹ in 000s
Property, Plant and Equipment	9,500
Investment	1,050
Inventory	1,300
Trade Receivable	1,800
Cash & Cash Equivalent	450
Total Assets	14,100
Less : Liabilities:	
Borrowings	3,000
Trade Payable	1,000
Net Assets	10,100
Purchase Consideration	11,000
Goodwill	900

Q22: The balance sheet of Professional Ltd and Dynamic Ltd as of 31 March 20X2 is given below:

	₹ In lacs	
	Professional Ltd	Dynamic Ltd
Assets		
Non-Current Assets:		
Property plant and equipment	300	500
Investments	400	100
Current assets:		
Inventories	250	150
Financial assets	400	230
Trade receivable	450	300
Cash and cash balances	200	100
Total	2,000	1,380
Equity and Liabilities		
Equity		
Share capital- Equity shares of ₹ 100 each of Dynamic Ltd. and ₹ 10 each of Professional Ltd.	500	400

Reserve and surplus	730	180
OCI	80	45
Non-Current liabilities:		
Long term borrowings	250	200
Long term provisions	50	70
Deferred tax	40	35
Current Liabilities:		
Short term borrowings	100	150
Trade payable	250	300
Total	2,000	1,380

Other information

- a. Professional acquired 70% of Dynamic Ltd on 1 April 20X2 for by issuing its own share in the ratio of 1 share of Professional Ltd for every 2 shares of Dynamic Ltd. The fair value of the shares of Professional Ltd was 40.
- b. The fair value exercise resulted in the following: **(all nos in Lakh)**
 - a. PPE fair value on 1 April 20X2 was 350.
 - b. Professional Ltd also agreed to pay an additional payment that is higher of 35 lakh and 25% of any excess of Dynamic Ltd in the first year after acquisition over its profits in the preceding 12 months. This additional amount will be due after 2 years. Dynamic Ltd has earned 10 lakh profit in the preceding year and expects to earn another 20 Lakh.
 - c. In addition to above, Professional Ltd also had agreed to pay one of the founder shareholder a payment of 20 lakh provided he stays with the Company for two year after the acquisition.
 - d. 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:
 - i. Original award- INR 5
 - ii. Replacement award- INR 8.
 - e. Dynamic Ltd had a lawsuit pending with a customer who had made a claim of 50. Management reliably estimated the fair value of the liability to be 5.

f. The applicable tax rate for both entities is 30%.

You are required to prepare opening consolidated balance sheet of Professional Ltd as on 1 April 20X2. Assume 10% per annum discount rate.

[NOV 19; Exam May 22(15 Marks); MTP May 25]

Ans: Consolidated Balance Sheet of Professional Ltd as on 1st April, 20X2(₹ in Lakhs)

	Amount
Assets	
Non-Current Assets:	
Property, plant and equipment	650
Investment	500
Current assets:	
Inventories	400
Financial assets:	
Trade receivables	750
Cash and cash equivalents	300
Others	<u>630</u>
Total	<u>3,230</u>
Equity and Liabilities	
Equity	
Share capital- Equity shares of ₹ 100 each	514
Other Equity	1,128.62
NCI	154.95
Non-Current liabilities:	
Long term borrowings	450
Long term provisions (50+70+28.93)	148.93
Deferred tax	28.5
Current Liabilities:	
Short term borrowings	250
Trade payables	550
Provision for Law suit Damages	<u>5</u>
Total	<u>3,230</u>

Notes:

- **Fair value adjustment-** As per Ind AS 103, the acquirer is required to record the assets and liabilities at their respective fair value. Accordingly, the PPE will be recorded at ₹ 350 lakhs.

- The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, 2.5 ($5 \times 2/4$) is considered as a part of purchase consideration and is credited to Professional Ltd equity as this will be settled in its own equity. The balance of 2.5 will be recorded as employee expense in the books of Dynamic Ltd over the remaining life, which is 1 year in this scenario.
- There is a difference between contingent consideration and deferred consideration. In the given case 35 is the minimum payment to be paid after 2 years and accordingly will be considered as deferred consideration. The other element is if company meet certain target then they will get 25% of that or 35 whichever is higher. In the given case since the minimum what is expected to be paid the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.
- The additional consideration of ₹ 20 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of Dynamic Ltd.

Working Notes:

1. Computation for Purchase consideration

Particulars		Amount
Share capital of Dynamic Ltd		<u>4,00,00,000</u>
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value ₹ per share		<u>40</u>
		₹ in lakhs
PC (2,00,000 x 70% x ₹ 40 per share) (A)		56.00
Deferred consideration after discounting ₹ 35 lakhs for 2 years @ 10% (B)		28.93
Replacement award Market based measure of the acquiree award (5) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (4) of the acquiree award ie (5 x 2 / 4) (C)		<u>2.50</u>
PC in lakhs (A+B+C)		<u>87.43</u>

2. Allocation of Purchase price

Particulars	Book value	Fair value	FV adjustment
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	(A)	(B)	(A-B)
Property, plant and equipment	500	350	(150)
Investment	100	100	-
Inventories	150	150	-
Financial assets:			-
Trade receivables	300	300	-
Cash and cash equivalents	100	100	-
Others	230	230	
Less: Long term borrowings	(200)	(200)	-
Long term provisions	(70)	(70)	-
Deferred tax	(35)	(35)	-
Short term borrowings	(150)	(150)	-
Trade payables	(300)	(300)	-
Contingent liability	-	(5)	(5)
Net assets (X)	625	470	(155)
Deferred tax Asset on FV adjustment (155 x 30%) (Y)		46.50	155
Net assets (X+Y)		516.5	
Non-controlling interest (516.50 x 30%) rounded off		154.95	
Capital Reserve (Net assets – NCI – PC)		274.12	
Purchase consideration (PC)		87.43	

3. Computation of consolidated amounts of Consolidated financial statements

	Professional Ltd.	Dynamic Ltd. (pre-acquisition)	PPA Allocation	Total
Assets				
Non-Current Assets:				
Property, plant and equipment	300	500	(150)	650
Investment	400	100		500
Current assets:				
Inventories	250	150		400
Financial assets:				

Trade receivables	450	300		750
Cash and cash equivalents	200	100		300
Others	400	230		630
Total	2,000	1,380	(150)	3230
Equity and Liabilities				
Equity				
Share capital-Equity shares of ₹ 100 each Shares allotted to Dynamic Ltd. (2,00,000 x 70% x ₹ 10 per share)	500		14	514
Other Equity	810		318.62	1128.62
Replacement award			2.5	2.5
Security Premium (2,00,000 shares x 70% x ₹ 30)			42	42
Capital Reserve			274.12	274.12
Non-controlling interest	0		154.95	154.95
Non-Current liabilities:				
Financial liabilities Long term borrowings	250	200		450
Long term provisions	50	70	28.93	148.93
Deferred tax	40	35	(46.5)	28.5
Current Liabilities:				
Financial liabilities Short term borrowings	100	150		250
Trade payable	250	300	0	550
Liability for lawsuit damages			5	5
Total	2,000	755	475	3230

Q23: On September 30, 20X1 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. All of Entity B's shareholders exchange their shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

The fair value of each ordinary share of Entity B at September 30, 20X1 is 40. The quoted market price of Entity A's ordinary shares at that date is 16. The fair values of Entity A's identifiable assets and liabilities at September 30, 20X1 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at September 30, 20X1 is 1,500.

The statements of financial position of Entity A and Entity B immediately before the business combination are:

	Entity A	Entity B
	(legal parent, accounting acquiree)	(legal subsidiary, accounting acquirer)
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
Retained earnings	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

Prepare consolidated balance sheet. Also calculate earnings per share from the following information:

Entity B's earnings for the annual period ended December 31, 20X0 were 600 and that the consolidated earnings for the annual period ended December 31, 20X1 were 800. There was no change in the number of ordinary shares issued by Entity B during the annual period ended December 31, 20X0 and during the period from January 1, 2006 to the date of the reverse acquisition on September 30, 20X1. [MTP Nov 2024]

Ans: Identifying the acquirer: As a result of Entity A issuing 150 ordinary shares, Entity B's shareholders own 60 per cent of the issued shares of the combined entity (i.e., 150 of the 250 total issued shares). The remaining 40 per cent are owned by Entity A's shareholders. Thus, the

transaction is determined to be a reverse acquisition in which Entity B is identified as the accounting acquirer (while Entity A is the legal acquirer).

Calculating the fair value of the consideration transferred: If the business combination had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity B's shareholders would then own 60 of the 100 issued shares of Entity B — 60 per cent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is 1,600 (40 shares with a fair value per share of 40).

The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted market price of Entity A's shares provides a more reliable basis for measuring the consideration effectively transferred than the estimated fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares — 100 shares with a fair value per share of 16.

Measuring goodwill: Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognised identifiable assets and liabilities, as follows:

Consideration effectively transferred		1,600
Net recognised values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	
Non-current liabilities	(400)	(1,300)
Goodwill		300

Consolidated statement of financial position at September 30, 20X1

The consolidated statement of financial position immediately after the business combination is:

Current assets [700 + 500]	1,200
Non-current assets [3,000 + 1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [600 + 300]	900
Non-current liabilities [1,100 + 400]	1,500
Total liabilities	2,400
Shareholders' equity	

Issued equity 250 ordinary shares [600 + 1,600]	2,200
Retained earnings	1,400
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

The amount recognised as issued equity interests in the consolidated financial statements (2,200) is determined by adding the issued equity of the legal subsidiary immediately before the business combination (600) and the fair value of the consideration effectively transferred (1,600). However, the equity structure appearing in the consolidated financial statements (i.e., the number and type of equity interests issued) must reflect the equity structure of the legal parent, including the equity interests issued by the legal parent to effect the combination.

Earnings per share

Earnings per share for the annual period ended December 31, 20X1 is calculated as follows:

Number of shares deemed to be outstanding for the period from January 1,

20X1 to the acquisition date (i.e., the number of ordinary shares issued by Entity A

(legal parent, accounting acquiree) in the reverse acquisition) 150

Number of shares outstanding from the acquisition date to December 31, 20X1 250

Weighted average number of ordinary shares outstanding $[(150 \times 9/12) + (250 \times 3/12)]$ 175

Earnings per share [800/175] 4.57

Restated earnings per share for the annual period ended December 31, 20X0 is 4.00 [calculated as the earnings of Entity B of 600 divided by the number of ordinary shares Entity A issued in the reverse acquisition (150)].

Q24: MNC Ltd. is in process of setting up a medicine manufacturing business which is at very initial stage. For this purpose, MNC Ltd. as part of its business expansion strategy acquired on 1st April, 2019, 100% shares of Akash Ltd., a company that manufactures pharmacy products. The purchase consideration for the same was by way of a share exchange valued at ₹ 38 crore. The fair value of Akash Ltd.'s assets and liabilities were ₹ 68 crore and ₹ 50 crore respectively, but the same does not include the following:

1. A patent owned by Akash Ltd. for an established successful new drug that has a remaining life of 6 years. A consultant has estimated the value of this patent to be ₹ 8 crore. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated ₹ 12 crore.
2. Akash Ltd. has developed and patented another new drug which has been approved for clinical use. The cost of developing the drug was ₹ 13 crore. Based on early assessment of its sales success, a reputed valuer has estimated its market value at ₹ 19 crore. However, there is no active market for the patent.

3. Akash Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the company has been granted an exclusive five-year license on 1st April, 2018 to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is valuable asset which assures guaranteed sales and the cost to acquire the license is estimated at ₹ 7 crore of remaining period of life. It is expected to generate at least equivalent revenue.

Suggest the accounting treatment of the above transactions with reasoning under applicable Ind AS in the books of MNC Ltd. [RTP May 19; Exam Nov 19; Exam July 21 (5); IBS CS 41]

Ans: As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquire had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

- (i) **Patent owned by Akash Ltd.:** The patent owned will be recognised at fair value by MNC Ltd. even though it was not recognised by Akash Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 6 years. Since the company is awaiting the outcome of the trials, the value of the patent should be valued at ₹ 8 crore. It cannot be estimated at ₹ 12 crore and the extra ₹ 4 crore should only be disclosed as a contingent asset and not recognised.
- (ii) **Patent internally developed by Akash Ltd.:** As per para 18 of Ind AS 103 'Business Combination', the acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. Since the patent developed has been approved for clinical use, it is an identifiable asset, hence the same will be measured at fair value ie ₹ 19 crore on the acquisition date.
- (iii) **Grant of Licence to Akash Ltd. by the Government:** As regards to the five-year license, applying para 18 of Ind AS 103, grant asset will be recognised at fair value on the acquisition date by MNC Ltd. On acquisition date, the fair value of the license asset is ₹7 crore. However, since the question does not mention about the fair value of the identifiable liability with respect to grant of license for the acquirer, it is assumed that the fair value of the liability with respect to grant, for acquirer is nil. Therefore, only, the grant asset (license) would be recognised at ₹ 7 crore in the books of acquirer MNC Ltd.

Hence the revised working would be as follows:

Fair value of net assets of Akash Ltd. (68-50)	₹ 18 crore
Add: Patent (8 + 19)	₹ 27 crore
Add: License	₹ 7 crore
Less: Grant for License	(Nil)
	₹ 52 crore

Purchase Consideration

(₹ 38 crore)

Capital Reserve

₹ 14 crore

Q25: 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
1 st November, 2016	15%	The shares were purchased based on the quoted price on the stock exchange on the relevant dates.
1 st January, 2017	45%	

Both the above-mentioned companies have INR as their functional currency. Consequently, H Ltd. acquired control over S Ltd. on 1st January, 2017.

Following is the Balance Sheet of S Ltd. As on that date:

Particulars	Carrying value (₹ in crore)	Fair value (₹ in crore)
ASSETS:		
<u>Non-current assets</u>		
(a) Property, plant and equipment	40.0	90.0
(b) Intangible assets	20.0	30.0
(c) Financial assets	100.0	350.0
- Investments		
<u>Current assets</u>		
(a) Inventories	20.0	20.0
(b) Financial assets		
- Trade receivables	20.0	20.0
- Cash held in functional currency	4.0	4.5
(c) Other current assets		
Non-current asset held for sale	4.0	4.5
TOTAL ASSETS	208	
EQUITY AND LIABILITIES:		
<u>Equity</u>		
(a) Share capital (face value ₹100)	12.0	50.4
(b) Other equity	141.0	Not applicable
<u>Non-current liabilities</u>		
(a) Financial liabilities		
- Borrowings	20.0	20.0
<u>Current liabilities</u>		
(a) Financial liabilities		
	28.0	28.0

- Trade payables	3.0	3.0
(b) Provision for warranties		
(c) Current tax liabilities	4.0	4.0
TOTAL EQUITY AND LIABILITIES	208.0	

Other information: Following is the statement of contingent liabilities of S Ltd. as on 1st January, 2017:

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.

The tax bases of the assets and liabilities of S Ltd. is equal to their respective carrying values being recognised in its Balance Sheet.

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.

In consideration of the additional stake purchased by H Ltd. on 1st January, 2017, 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, 2017 is ₹ 10,000 per share.

On 1st January, 2017, H Ltd. has paid ₹ 50 crore in cash to the selling shareholders of S Ltd. Additionally, on 31st March, 2019, 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, 2019 is more than 25% per annum. H Ltd. has estimated the fair value of this obligation as on 1st January, 2017 and 31st March, 2017 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.

Quoted price of equity shares of S Ltd. as on various dates is as follows:

As on November, 2016 ₹ 350 per share

As on 1st January, 2017 ₹ 395 per share

As on 31st March, 2017 ₹ 420 per share

On 31st May, 2017, H Ltd. learned that certain customer relationships existing as on 1st January, 2017, 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, 2017. The fair value of such customer relationships as on 1st January, 2017 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).

On 31st May, 2017 itself, H Ltd. further learned that due to additional customer relationships being developed during the period 1st January, 2017 to 31st March, 2017, the fair value of such customer relationships has increased to ₹ 4 crore as on 31st March, 2017.

On 31st December, 2017, 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.

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, 2017. 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, 2017?
If yes, provide relevant journal entries.
- c) What should be the accounting treatment of the contingent consideration as on 31st March, 2017? [MTP May 2019]

Ans:

- (a) The requirements in Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', do not apply in determining which contingent liabilities to recognise as of the acquisition date as per Ind AS 103 'Business Combination'. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to Ind AS 37, the acquirer

recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Hence H Ltd. will recognize contingent liability of ₹ 2.5 cr.

Since S Ltd. has indemnified for ₹ 1 cr., H Ltd. shall recognise an indemnification asset at the same time for ₹ 1 cr.

As per the information given in the question, this indemnified asset is not taxable. Hence, its tax base will be equal to its carrying amount. No deferred tax will arise on it.

- (b) As per Ind AS 103, non-current assets held for sale should be measured at fair value less cost to sell in accordance with Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'. Therefore, its carrying value as per balance sheet has been considered in the calculation of net assets.
- (c) Any equity interest in S Ltd. held by H Ltd. immediately before obtaining control over S Ltd. is adjusted to acquisition-date fair value. Any resulting gain or loss is recognised in the profit or loss of H Ltd.

Calculation of purchase consideration as per Ind AS 103

₹ in lakh

Investment in S Ltd.			
On 1 st Nov. 2016	15%	[(12/100) x 395 x 15%]	7.11
On 1 st Jan. 2017	45%		
Own equity given		10,000 x 12% x 45% x 1/2	270
Cash			50
Contingent consideration			<u>22</u>
			<u>349.11</u>

- (d) Calculation of defer tax on assets and liabilities acquired as part of the business combination, including current tax and goodwill.

Item	₹ in crore				
	Book value	Fair value	Tax base	Taxable (deductible) temporary difference	Deferred tax assets (liability) @ 30%
Property, plant and equipment	40	90	40	50	(15)
Intangible assets	20	30	20	10	(3)
Investments	100	350	100	250	(75)
Inventories	20	20	20	-	-
Trade receivables	20	20	20	-	-
Cash held in functional currency	4	4	4	-	-

Non-current asset held for sale	4	4	4	-	-
Indemnified asset	-	1	1	-	-
Borrowings	20	20	20	-	-
Trade payables	28	28	28	-	-
Provision for warranties	3	3	3	-	-
Current tax liabilities	4	4	4	-	-
Contingent liability		0.5	-	(0.5)	<u>0.15</u>
Deferred tax Liability					<u>(92.85)</u>

(e) Calculation of identifiable net assets acquired

	₹ in crore	₹ in crore
Property, plant and equipment	90	
Intangible assets	30	
Investments	350	
Inventories	20	
Trade receivables	20	
Cash held in functional currency	4	
Non-current asset held for sale	4	
Indemnified asset	<u>1</u>	
Total asset		519
Less: Borrowings	20	
Trade payables	28	
Provision for warranties	3	
Current tax liabilities	4	
Contingent liability (2 + 0.5)	2.50	
Deferred tax liability (W.N.2)	<u>92.85</u>	<u>(150.35)</u>
Net identifiable assets		<u>368.65</u>

1) Calculation of NCI by proportionate share of net assets

Net identifiable assets of S Ltd. on 1.1.2017 (Refer W.N) = 368.65 crore

NCI on 1.1.2017 = 368.65 crore x 40% = 147.46 crore

Calculation of Goodwill as per Ind AS 103

Goodwill on 1.1.2017 = Purchase consideration + NCI – Net assets

= 349.11 + 147.46 – 368.65 = 127.92 crore

2) As per para 45 of Ind AS 103 'Business Combination', if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Further, as per para 46 of Ind AS 103, the measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Ind AS:

- a) the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;
- b)
- c); and
- d) the resulting goodwill or gain on a bargain purchase.

Para 48 states that the acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of a decrease (increase) in goodwill.

Para 49 states that during the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date.

Para 50 states that after the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

On 31st December, 2017, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and the more information is

not obtainable. Therefore, the measurement period for acquisition of S Ltd. ends on 31st December, 2017.

On 31st May, 2017 (ie within the measurement period), H Ltd. learned that certain customer relationships existing as on 1st January, 2017 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, 2017. Therefore, H Ltd. shall account for the acquisition date fair value of customer relations existing on 1st January, 2017 as an identifiable intangible asset. The corresponding adjustment shall be made in the amount of goodwill.

Accordingly, the amount of goodwill will be changed due to identification of new asset from retrospective date for changes in fair value of assets and liabilities earlier recognised on provisional amount (subject to meeting the condition above for measurement period). NCI changes would impact the consolidated retained earnings (parent's share). Also NCI will be increased or decreased based on the profit during the post-acquisition period.

Journal entry

Customer relationship	Dr.	3.5 crore	
To NCI			1.4 crore
To Goodwill			2.1 crore

However, the increase in the value of customer relations after the acquisition date shall not be accounted by H Ltd., as the customer relations developed after 1st January, 2017 represents internally generated intangible assets which are not eligible for recognition on the balance sheet.

- 3) Since the contingent considerations payable by H Ltd is not classified as equity and is within the scope of Ind AS 109 'Financial Instruments', the changes in the fair value shall be recognised in profit or loss. Change in Fair value of contingent consideration (23 -22) ₹ 1 crore will be recognized in the Statement of Profit and Loss.

Q26: 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 Arrangement.

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 on 01.04.20X1. However, company Z has filed the appeal with arbitrator on 30.04.20X1.

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 30.6.20X1. Government approval for the modification in PSC is essential given the industry in which the joint-operators operate.

Balance sheet of Company X & Company Z are as follows:

Particulars	Company X		Company Z	
	31.5.20X1	30.6.20X1	31.5.20X1	30.6.20X1
	₹	₹	₹	₹
Assets				
Non-Current Assets				
Property, Plant & Equipment	5,00,000	10,00,000	1,50,000	3,00,000
Right of Use Asset	1,00,000	2,00,000	10,000	20,000
Development CWIP	50,000	1,00,000	50,000	1,00,000
Financial Assets				
Loan receivable	<u>25,000</u>	<u>50,000</u>	<u>25,000</u>	<u>50,000</u>
Total Non-Current Assets	<u>6,75,000</u>	<u>13,50,000</u>	<u>2,35,000</u>	<u>4,70,000</u>
Current assets				
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 and cash equivalents	2,00,000	4,00,000	1,00,000	2,00,000
Other Current Assets	<u>2,25,000</u>	<u>50,000</u>	<u>25,000</u>	<u>50,000</u>
Total Current Assets	<u>6,75,000</u>	<u>9,50,000</u>	<u>1,90,000</u>	<u>3,80,000</u>
Total Assets	<u>13,50,000</u>	<u>23,00,000</u>	<u>4,25,000</u>	<u>8,50,000</u>
Equity and Liabilities				
Equity				
Equity share capital	3,00,000	3,00,000	1,00,000	1,00,000

Other equity	<u>2,00,000</u>	<u>3,00,000</u>	<u>75,000</u>	<u>2,50,000</u>
Total Equity	<u>5,00,000</u>	<u>6,00,000</u>	<u>1,75,000</u>	<u>3,50,000</u>
Liabilities				
Non-Current Liabilities				
Provisions	4,00,000	8,00,000	1,00,000	2,00,000
Other Liabilities	<u>1,50,000</u>	<u>3,00,000</u>	<u>50,000</u>	<u>1,00,000</u>
Total Non-Current Liabilities	<u>5,50,000</u>	<u>11,00,000</u>	<u>1,50,000</u>	<u>3,00,000</u>
Current Liabilities				
Financial Liabilities				
Trade Payable	<u>3,00,000</u>	<u>6,00,000</u>	<u>1,00,000</u>	<u>2,00,000</u>
Total Current Liabilities	<u>3,00,000</u>	<u>6,00,000</u>	<u>1,00,000</u>	<u>2,00,000</u>
Total Liabilities	<u>13,50,000</u>	<u>23,00,000</u>	<u>4,25,000</u>	<u>8,50,000</u>

Additional Information:

- Fair Value of PPE & Development CWIP owned by Company Z as per Market participant approach is ₹ 5,00,000 & ₹ 2,00,000 respectively.
- 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.
- Tax rate is assumed to be 30%.
- As per Ind AS 111, it is a joint operation whereby every operator records their share of assets and liabilities in their books.

You need to determine the following:

- Whether the above acquisition falls under business or asset acquisition as defined under business combination standard Ind AS 103?
 - Determine the acquisition date in the above transaction.
 - Prepare Journal entries for the above-mentioned transaction.
 - Draft the Balance Sheet for Company X based on your analysis in Part 1 above as at acquisition date.
- [RTP NOV 2021]**

Ans: (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, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

For a transaction to meet the definition of a business combination (and for the acquisition method of accounting to apply), the entity must gain control of an integrated set of assets and activities that is more than a collection of assets or a combination of assets and liabilities.

To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs.

Therefore, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

In the aforesaid transaction, Company X acquired share of participating rights owned by Company Z for the producing Block (AWM/01). The output exist in this transaction (Considering AWM/01) is a producing block. Also, all the manpower and requisite facilities / machineries are owned by Joint Operations and thereby all the Joint Operators. Hence, acquiring participating rights tantamount to acquire inputs (Expertise Manpower & Machinery) and it is critical to the ability to continue producing outputs. Thus, the said acquisition will fall under the Business Acquisition and hence standard Ind AS 103 is to be applied for the same.

- (2) As per paragraph 8 of Ind AS 103, acquisition date is the date on which the acquirer obtains control of the acquiree. Further, paragraph 9 of Ind AS 103 clarifies that the date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date.

An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date. Since government of India (GOI) approval is a substantive approval for Company X to acquire control of Company Z's operations, the date of acquisition cannot be earlier than the date on which approval is obtained from GOI. This is pertinent given that the approval from GOI is considered to be a substantive process and accordingly, the acquisition is considered to be completed only on receipt of such approval. Hence acquisition date in the above scenario is 30.6.20X1.

(3) **Journal entry for acquisition**

Particulars		Amount (₹)	Amount (₹)
Property Plant & Equipment	Dr.	1,66,650	
Right-of-use Asset	Dr.	6,666	
Development CWIP	Dr.	66,660	
Financial Assets - Loan Receivables	Dr.	16,665	
Inventories	Dr.	9,999	
Trade Receivables	Dr.	33,330	
Other Current Assets	Dr.	16,665	
To Provisions			66,660
To Other Liabilities			33,330
To Trade Payables			66,660
To Deferred Tax Liability			29,997

To Cash & Cash Equivalent (Purchase consideration)		1,00,000
To Gain on bargain purchase (Other Comprehensive Income)		19,988
(Being assets acquired and liabilities assumed from Company Z recorded at fair value along gain on bargain purchase)		

(4) **Balance Sheet of Company X as at 30.6.20X1 (Pre & Post Acquisition of PI rights pertaining to Company Z)**

Particulars	Pre-Acquisition	Adjustments	Post-Acquisition
	30.6.20X1	30.6.20X1	
Assets			
Non - Current Assets			
Property Plant & Equipment	10,00,000	1,66,650	11,66,650
Right of Use Asset	2,00,000	6,666	2,06,666
Development CWIP	1,00,000	66,660	1,66,660
Financial Assets			
Loan receivable	50,000	16,665	66,665
Total Non-Current Assets	13,50,000		16,06,641
Current assets			
Inventories	2,00,000	9,999	2,09,999
Financial Assets			
Trade receivables	3,00,000	33,330	3,33,330
Cash and cash equivalents	4,00,000	(1,00,000)	3,00,000
Other Current Assets	50,000	16,665	66,665
Total Current Assets	9,50,000		9,09,994
Total Assets	23,00,000		25,16,635
Equity and Liabilities			
Equity			
Equity share capital	3,00,000	-	3,00,000
Other equity	3,00,000	-	3,00,000
Capital Reserve (OCI)	-	19,988	19,988
Total Equity	6,00,000		6,19,988
Liabilities			
Non-Current Liabilities			
Provisions	8,00,000	66,660	8,66,660
Other Liabilities	3,00,000	33,330	3,33,330
Deferred Tax Liability	-	29,997	29,997

Total Non-Current Liabilities	<u>11,00,000</u>		<u>12,29,987</u>
Current Liabilities			
Financial liabilities			
Trade Payable	<u>6,00,000</u>	6,00,000	<u>6,00,000</u>
Total Current Liabilities	<u>6,00,000</u>		<u>6,00,000</u>
Total Equity and Liabilities	<u>23,00,000</u>		<u>25,16,635</u>

Working Notes

- 1) Determination of Company Z's balance acquired by Company X on 30.6.20X1 (Acquisition Date)

Particulars	As per Company Z Books	Carrying Value 33.33% Share	Acquisition Date Value	Remarks
	30.6.20X1			
	₹	₹	₹	
Assets				
Non-Current Assets				
Property Plant & Equipment	3,00,000	99,990	1,66,650	Note 1
Right of Use Asset	20,000	6,666	6,666	
Development CWIP	1,00,000	33,330	66,660	Note 2
Financial Assets				
Loan receivable	<u>50,000</u>	<u>16,665</u>	<u>16,665</u>	
Total Non-Current Assets	<u>4,70,000</u>	<u>1,56,651</u>	<u>2,56,641</u>	
Current assets				
Inventories	30,000	9,999	9,999	
Financial Assets				
Trade receivables	1,00,000	33,330	33,330	
Cash and cash equivalents	2,00,000	66,660	66,660	
Other Current Assets	<u>50,000</u>	<u>16,665</u>	<u>16,665</u>	
Total Current Assets	<u>3,80,000</u>	<u>1,26,654</u>	<u>1,26,654</u>	
Liabilities				
Non-Current Liabilities				
Provisions	2,00,000	66,660	66,660	
Other Liabilities	<u>1,00,000</u>	<u>33,330</u>	<u>33,330</u>	
Total Non – Current Liabilities	<u>3,00,000</u>	<u>99,990</u>	<u>99,990</u>	
Current Liabilities				
Financial liabilities				
Trade Payable	<u>2,00,000</u>	<u>66,660</u>	<u>66,660</u>	
Total Current Liabilities	<u>2,00,000</u>	<u>66,660</u>	<u>66,660</u>	

Note 1: Fair Value of PPE:

Fair Value of PPE in Company Z Books	₹ 5,00,000
33.33% Share acquired by Company X	₹ 1,66,650

Note 2: Fair Value of Development CWIP:

Fair Value of PPE in Company Z Books	₹ 2,00,000
33.33% Share acquired by Company X	₹ 66,660

2) Computation Goodwill/Bargain Purchase Gain

Particulars	As at 30.6.20X1 (₹)
Total Non - Current Assets	2,56,641
Total Current Assets (Except Cash & Cash Equivalent of ₹ 66,660) (1,26,654 – 66,660)	59,994
Total Non-Current Liabilities	(99,990)
Total Current Liabilities	(66,660)
Total Deferred Tax Liability (Refer Working note 3)	(29,997)
Net Assets Acquired	1,19,988
Less: Consideration Paid	(1,00,000)
Gain on Bargain Purchase (To be transferred to OCI)	19,988

* In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination in which the value of net assets acquired in a business combination exceeds the purchase consideration. The acquirer shall recognise the resulting gain in other comprehensive income on the acquisition date and accumulate the same in equity as capital reserve, if the reason for bargain purchase gain is clear and evidence exist. If there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, then the gain shall be recognised directly in equity as capital reserve. Since in above scenario it is clearly evident that due to liquidity issues, Company Z has to withdraw their participating right from AWM/01. The said bargain purchase gain should be transferred to other comprehensive income on the acquisition date.

3) Computation of Deferred Tax Liability arising on Business Combination

Particulars	Acquisition Date Value (₹)
Total Non - Current Assets	2,56,641
Total Current Assets (Except Cash & Cash Equivalent of ₹ 66,660)	59,994

Total Non-Current Liabilities	(99,990)
Total Current Liabilities	(66,660)
Net Assets Acquired at Fair Value	1,49,985
Book value of Net Assets Acquired	49,995
Temporary Difference	99,990
DTL @ 30% on Temporary Difference	29,997

QUESTIONS FROM OTHER SOURCES

Q27: Entity A acquires 80% of the share capital of Entity B, which holds a single asset, or a group of assets not constituting a business. The remaining 20% of the share capital is held by Entity M, an unrelated third party. The fair value of the asset is ₹ 20,000. Entity A controls Entity B, as defined in Ind AS 110 Consolidated Financial Statements. Cash paid for the acquisition is ₹ 16,000 and fair value of non-controlling interest is ₹ 4,000. How does an acquirer account for the acquisition of a controlling interest in another entity that is not a business?

Ans: Under Ind AS 110, an entity must consolidate all investees that it controls, not just those that are businesses, and recognise any non-controlling interest in non-wholly owned subsidiaries.

When the acquisition of an entity is not a business combination, the requirements of acquisition accounting of Ind AS 103 relating to the allocation of the consideration transferred to the identifiable assets and liabilities and the recognition of goodwill are not applicable.

Paragraph 2(b) of Ind AS 103 states that upon the acquisition of an asset or a group of assets that does not constitute a business, the acquirer shall identify and recognise the individual identifiable assets acquired and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

Ind AS 16, Property, Plant and Equipment and Ind AS 38, Intangible Assets state that "Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. Therefore, when an asset is acquired, its cost is the amount of consideration paid, plus the amount of non-controlling interest (NCI) recorded related to that asset- as this represents a 'claim' relating to that asset.

With respect to case above, the following entries would be recorded:

Asset	Dr	20,000
NCI	Cr	4,000
Cash	Cr	16,000

Q28: A Ltd. agreed to absorb B Ltd. on 31st March 1999, whose balance sheet stood as follows:

Liabilities	₹	Assets	₹
Share Capital		PPE	7,00,000
80,000 shares of ₹ 10 each fully paid		Current Assets	
Reserves & Surplus	8,00,000	Stock in trade	1,00,000

General Reserve	1,00,000	Sundry Debtors	2,00,000
Current Liabilities			
Sundry Creditors	1,00,000		
	10,00,000		10,00,000

The consideration was agreed to be paid as follows:

- A payment in cash of ₹ 5 per share in B Ltd. and
- The issue of shares of ₹ 10 each in A Ltd., on the basis of 2 Equity Shares (valued at ₹ 15) and one 10% cum. Preference share (valued at ₹ 10) for every five shares held in B Ltd.
- The whole of the share capital consists of shareholdings in exact multiple of five except the following holding.

Chopra	116
Karki	76
Amar Singh	72
Malhotra	28
Other individuals (Eight members holding one share each)	8
	300

- It was agreed that A Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in B Ltd. i.e. ₹ 65 for five shares of ₹ 50 paid.

Prepare a statement showing the purchase consideration receivable in share and cash.

Ans: a) Schedule of Fraction

	Holding of Shares (A)	Exchangeable in nearest multiple of five (B)	Non Exchangeable (E) = (A) – (B)
Chopra	116	115	1
Karki	76	75	1
Amarsingh	72	70	2
Malhotra	28	25	3
Others	8	-	8
	300	285	15

b) Shares Exchangeable: Equity Shares in A Ltd.

		No.		No.
(i)	80,000–300 (Total A above)	79,700	2/5 there of	31,880
	300-15 (Total E Above)	<u>285</u>	2/5 there of	<u>114</u>

		<u>79,985</u>		<u>31,994</u>
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c) Shares Exchangeable: Preference Shares in A Ltd.

		No.		No.
(ii)	80,000-300 (Total A above)	79,700	1/5 there of	15,940
	300-15 (Total E Above)	<u>285</u>	1/5 there of	57
		<u>79,985</u>		<u>15,997</u>

There are 15 shares in B Ltd. which are not capable of exchange into equity and preference shares of A Ltd. they will be paid in cash $(150 \times 65/50) = 195$

d) Purchase Consideration

	₹
31,994 Equity Shares @ ₹ 15 each	4,79,910
15,997 Preference shares @ ₹ 10 each	1,59,970
Cash on 79,985 @ ₹ 5 each	3,99,925
	10,39,805
Add: Cash for 15 shares	195
	<u>10,40,000</u>

Q29: X Ltd. and Y Ltd. were in company business. They decided to form a new company named XY Ltd. The balance sheets of both the companies were as under:

Balance Sheet as at 31st December, 2002

Liabilities	X Ltd. ₹	Y Ltd. ₹	Assets	X Ltd. ₹	Y Ltd. ₹
Equity Shares of ₹100	20,00,000	10,00,000	Goodwill	---	1,00,000
Reserve	2,00,000	2,60,000	Building	10,00,000	6,00,000
			Machinery	4,00,000	5,00,000
Sundry Creditors	60,000	40,000	Stock	3,00,000	40,000
			Sundry Debtors	2,40,000	40,000
			Cash at Bank	2,20,000	10,000
			Cash in Hand	1,00,000	10,000
	22,60,000	13,00,000		22,60,000	13,00,000

The companies were allotted equity shares of ₹ 100 each in lieu of purchase consideration.

Fair value of Assets is as under

Assets	X Ltd	Y Ltd.
Goodwill	2,00,000	1,50,000

Building	12,60,000	8,00,000
Machinery	3,00,000	7,00,000
Stock	3,40,000	30,000

Prepare opening balance sheet of XY Ltd if XY Ltd. issue shares to shareholders of X Ltd and Y Ltd, on the basis of the intrinsic value of its shares on the date of take over.

Refer Class Notes for Solution

Q30: X Ltd. and Y Ltd. were in company business. X Ltd decide to absorb Y Ltd. The balance sheets of both the companies were as under:

Balance Sheet as at 31st December, 2002

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Equity Shares of ₹100 each	10,00,000	20,00,000	Goodwill	1,00,000	
Sundry Creditors	40,000	60,000	Building	6,00,000	10,00,000
Reserve	2,60,000	2,00,000	Machinery	5,00,000	4,00,000
			Stock	40,000	3,00,000
			Sundry Debtors	40,000	2,40,000
			Cash at Bank	10,000	2,20,000
			Cash in Hand	10,000	1,00,000
	13,00,000	22,60,000		13,00,000	22,60,000

Fair value of Assets is as under

Assets	X Ltd.	Y Ltd
Goodwill	11,50,000	2,00,000
Building	3,00,000	12,60,000
Machinery	5,00,000	3,00,000
Stock	30,000	3,40,000

X Ltd. to issue shares to shareholders of Y Ltd. on the basis of the intrinsic value of its shares on the date of take over. Prepare opening balance sheet of X Ltd after absorption.

Refer Class Notes for Solution

Q31: The Balance Sheet of Z Ltd. as at 31st March, 2003 is given below. In it, the respective shares of the company's two divisions namely S Division and W Division in the various assets and liabilities have also been shown. (All amounts in crores of Rupees)

	S Division	W Division	Total
Fixed Assets:			

Cost	875	249	
Less: Depreciation	<u>360</u>	<u>81</u>	
Written-down value	515	168	683
Investments			97
Net Current assets:			
Current Assets	445	585	
Less: Current Liabilities	<u>270</u>	<u>93</u>	
	175	492	667
			1,447
Financed by:			
Loan funds		15	417
Own funds:			
Equity share capital: shares of ₹ 10 each			345
Reserves and surplus			685
			1,447

Loan funds included, inter alia, Bank Loans of ₹ 15 crore specifically taken for W Division and Debentures of the paid up value of ₹ 125 crore redeemable at any time between 1st October, 2002 and 30th September, 2003.

On 1st April, 2003 the company sold all of its investments for ₹ 102 crore and redeemed all the debentures at par, the cash transactions being recorded in the Bank Account pertaining to S Division.

Then a new company named Y Ltd. was incorporated with an authorised capital of ₹ 900 crore divided into shares of ₹ 10 each. All the assets and liabilities pertaining to W Division were transferred to the newly formed company; Y Ltd. allotting to Z Ltd.'s shareholders its two fully paid equity each at par for every fully paid equity share of ₹ 10 each held in Z Ltd. as discharge of consideration for the division taken over.

Y Ltd. recorded in its books the fixed assets at ₹ 218 crore and all other assets and liabilities at the same values at which they appeared in the books of Z Ltd.

You are required to:

1. Show the journal entries in the books of Z Ltd.
2. Prepare Z Ltd.'s Balance Sheet immediately after the demerger and the initial Balance Sheet of Y Ltd. (Notes in both cases need not be prepared).

Refer Class Notes for Solution

QUESTIONS FROM RTP/MTP/EXAMS

Q32: Parent A holds 100% in its subsidiary B. Parent A had acquired B, 10 years back and had decided to account for the acquisition under the purchase method using fair values of the subsidiary B in its consolidated financial statements.

During the current year, A decides to merge B with itself.

For the purpose of this proposed merger, what values of B should be used for accounting under the Ind AS? [Exam Nov 19]

Ans: Reference to be included to Appendix C of Ind AS 103

The acquisition of B Ltd. by A Ltd. is business combination under common control. In such a situation, pooling of interest method should be applied. However, B Ltd. is 100% subsidiary of A Ltd. and A Ltd. in its Consolidated financial statements use to give the carrying values of assets and liabilities of B Ltd. at fair value (as per acquisition under purchase method). Hence the carrying value for the purpose of pooling of interest method will be the values given in Consolidated financial statements and not in Separate financial statements.

In other words, since B Ltd. is merging with A Ltd. (i.e. parent) nothing has changed and the transaction only means that the assets, liabilities and reserves of B Ltd. which were appearing in the consolidated financial statements of Group A immediately before the merger would now be a part of the separate financial statements of A Ltd. Accordingly, it would be appropriate to recognise the carrying value of the assets, liabilities and reserves pertaining to B Ltd as appearing in the consolidated financial statements of A Ltd.

Q33: 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, 2015 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

(₹ in Crores)

Assets			
Non-current assets			
Property, plant and Equipment		15.00	
			15.00
Current Assets			

	Financial assets		
	Trade Receivables	10.00	
	Cash and cash equivalents	10.00	
	Other current assets	8.00	
			28.00
	Total		43.00
	Equity and Liabilities		
	Equity		
	Equity Share Capital	45.00	
	Other Equity		
	Reserves and Surplus (Accumulated Losses)*	(24.80)	20.20
	Liabilities		
	Non-current Liabilities		
	Financial liabilities		
	Borrowings	2.80	
	Current Liabilities	20.00	
			22.80
	Total		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 Share Capital of Transferor Company. **[RTP Nov 2018]**

Ans: Before the merger, Cloudustries and MicroFly are the subsidiary of Smart Technologies Inc. As the control is not transitory, the proposed merger will fall under the category of Business combination of entities under common control, it will be accounted as per Appendix C of Ind AS 103 “Business Combination” and Pooling of Interest Method would be applied.

Statement showing the calculation of assets/liabilities taken over and treatment of difference between consideration and assets/liabilities taken over:

(a)	Net asset taken over:	(₹ in crore)
	Assets taken over:	
	Property, Plant and Equipment	15.00
	Cash and cash equivalents	10.00
	Other current assets	8.00
	Trade Receivables	10.00
	Total - A	43.00
	Less: Liabilities taken over:	
	Borrowings	2.80
	Current Liabilities	20.00
	Total – B	22.80
	Net Asset taken over (A-B)	20.20
(b)	Treatment of difference between consideration and Share Capital:	(₹ in crore)
	Purchase Consideration (A)	18.00
	Less: Share Capital of Transferor Company (B)	45.00
	Difference (A – B)	27.00

The difference between consideration and Share Capital of ₹ 27.00 crore shall be transferred to capital reserve.

Q34: 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. [RTP May 2018]

Ans: The amount of Beta Pvt. Ltd. identifiable net assets [₹ 400, calculated as ₹ 500 - ₹ 100) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in Beta Pvt. Ltd. [₹ 384 calculated as 300 + 84]. Alpha Ltd. measures the gain on its purchase of the 80 per cent interest as follows:

		₹ in lakh
Amount of the identifiable net assets acquired (₹ 500 - ₹ 100)		400
Less: Fair value of the consideration transferred for Alpha Ltd. 80 per cent interest in Beta Pvt. Ltd.	300	
Add: Fair value of non controlling interest in Beta Pvt. Ltd. purchase of 80 per cent interest	84	(384)
		16

Journal Entry

		₹ in lakhs
Identifiable assets acquired Dr.	500	
To Cash		300
To Liabilities assumed		100
To OCI/Equity-Gain on the bargain purchase		16
To Equity-non controlling interest in Beta Pvt Ltd.		84

If the acquirer chose to measure the non-controlling interest in Beta Pvt. Ltd. on the basis of its proportionate interest in the identifiable net assets of the acquire, the recognized amount of the non-controlling interest would be ₹ 80 (₹ 400 x 0.20). The gain on the bargain purchase then would be ₹ 20 (₹ 400 - (₹ 300 + ₹ 80))

Q35: 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 shareholders 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 shareholders 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.

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%.

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. **[RTP Nov 18; Exam May 22 (5 Marks)]**

Ans:

Computation of goodwill impairment	NCI at fair value	NCI at net assets
	₹ in '000	₹ in '000
Cost of investment		
Share exchange (12,000 x 75% x 2/3 x ₹ 6.50)	39,000	39,000
Deferred consideration (7,150 / 1.10)	6,500	6,500
Contingent consideration	25,000	25,000
Non-controlling interest at date of acquisition:		
Fair value – 3000 x ₹ 6	18,000	
% of net assets – 68,000 (Refer W.N.) x 25%		17,000
Net assets on the acquisition date (Refer W.N.)	(68,000)	(68,000)
Goodwill on acquisition	20,500	19,500
Impairment @ 10%	2,050	1,950
Working Note:		
Net assets on the acquisition date		₹ '000
Fair value at acquisition date		70,000
Deferred tax on fair value adjustments [20% x (70,000 – 60,000)]		(2,000)
		68,000

Q36: Deepak Ltd., an automobile group acquires 25% of the voting ordinary shares of Shaun Ltd., another automobile business, by paying, ₹ 4,320 crore on 01.04.2019. Deepak Ltd. accounts its investment in Shaun Ltd. using equity method as prescribed under Ind AS 28. At 31.03.2020, Deepak Ltd. recognised its share of the net asset changes of Shaun Ltd. using equity accounting as follows:

(₹ in crore)

Share of Profit or Loss	378
Share of Exchange difference in OCI	54
Share of Revaluation Reserve of PPE in OCI	27

On 01.04.2020, Deepak Ltd. acquired remaining 75% of Shaun Ltd. for cash ₹ 13,500 crore. Fair value of the 25% interest already owned was ₹ 4,860 crore and fair value of Shaun Ltd.'s identifiable net assets was ₹ 16,200 crore as on 01.04.2020. How should such business combination be accounted for in accordance with the applicable Ind AS? **[MTP Nov 2020]**

Ans: Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed of directly the previously held equity interest.

Applying the above, Deepak Ltd. records the following entry in its consolidated financial statements:

		(₹ in crore)	
		Debit	Credit
Identifiable net assets of Shaun Ltd.	Dr.	16,200	
Goodwill (W.N.1)	Dr.	2,160	
Foreign currency translation reserve	Dr.	54	
PPE revaluation reserve	Dr.	27	
To Cash			13,500
To Investment in associate (4,320 + 378 + 54 + 27)			4,779
To Retained earnings (W.N.2)			27
To Gain on previously held interest in Shaun Ltd. recognised in Profit or loss (W.N.3)			135
(Recognition of acquisition of Shaun Ltd.)			

Working Notes:

1. Calculation of Goodwill

	₹ in crore
Cash consideration	13,500
Add: Fair value of previously held equity interest in Shaun Ltd.	<u>4,860</u>
Total consideration	18,360
Less: Fair value of identifiable net assets acquired	<u>(16,200)</u>

Goodwill	<u>2,160</u>
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2. The credit to retained earnings represents the reversal of the unrealized gain of ₹ 27 crore in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.
3. The gain on the previously held equity interest in Shaun Ltd. is calculated as follows:

	₹ in crore
Fair Value of 25% interest in Shaun Ltd. at 1 st April, 2020	4,860
Carrying amount of interest in Shaun Ltd. at 1 st April, 2020	<u>(4,779)</u>
	81
Unrealised gain previously recognised in OCI	<u>54</u>
Gain on previously held interest in Shaun Ltd. recognised in profit or loss	<u>135</u>

Q37: On 1st April, 2018, KK Ltd. has acquired 80% of the equity interest in CK Ltd., a private entity in exchange for cash of ₹150 crore. Because the former owners of CK Ltd. needed to dispose of their investment in CK Ltd. by a specified date, they did not have sufficient time to identify other potential buyers. Additional information with respect to the said acquisition are as follows:

- The identifiable assets are measured at ₹ 250 crore and the liabilities assumed at ₹ 50 crore.
 - The Company has also engaged an independent consultant, who has determined that the fair value of the 20% of Non-controlling Interest in CK Ltd. is ₹ 42 crore.
- (i) The Company has requested you to suggest the accounting treatment of the above acquisition made as per Ind AS.
 - (ii) Whether the Company has any other option other than the fair valuation of the non-controlling interest?
 - (iii) If yes, what will be the impact of the same under the Ind AS 103?
 - (iv) Further the Company has also requested you to explain the differences in the accounting under corresponding IFRS for the aforementioned transaction. **[GFRS]**

Ans: (i) Since the former owners of CK Ltd. needed to dispose of their investment in CK Ltd. by a specified date and also, they did not have sufficient time to identify other potential buyers, there exists clear evidence of the underlying reasons for classifying the business combination as a bargain purchase.

Therefore, the gain on bargain purchase calculated at ₹ 8 crore, will be recognised in other comprehensive income on the acquisition date and accumulated the same in equity as capital reserve as follows:

Journal Entry

		₹ in crore	₹ in crore
Identifiable assets acquired	Dr	250	
To Bank			150
To Liabilities assumed			50
To NCI (at fair value)			42
To Capital Reserve (Bargain purchase recognized in OCI) (Balancing figure)			8

- (ii) Yes, KK Ltd. has the option to value non-controlling interest by proportionate share method at the acquisition date.
- (iii) If KK Ltd. chose to measure the non-controlling interest in CK Ltd. on the basis of its proportionate share of identifiable net assets of the acquiree, the recognised amount of the non-controlling interest would be ₹40 crore (₹ 200 crore x 20%). The gain on the bargain purchase then would be ₹ 10 crore [₹ 200 crore – (₹ 150 crore + ₹ 40 crore)].
- (iv) As per IFRS 3, bargain purchase gain arising on business combination is to be recognised in profit or loss as income.

However, Ind AS 103 'Business Combination' requires the bargain purchase gain to be recognised in other comprehensive income and accumulated in equity as capital reserve if there exists clear evidence of the underlying reasons for classifying the business combination as a bargain purchase. If there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, then it shall be recognised directly in equity as capital reserve.

Q38: Makers Ltd. acquired 65% of shares on 1st June, 2018 in D Limited which is engaged in production of components of machinery. D Limited has 1,00,000 equity shares of ₹ 10 each. The quoted market price of shares of D Limited was ₹12 on the date of acquisition. The fair value of D Limited's identifiable net assets as on 1st June, 2018 was ₹ 80,00,000.

Makers Limited 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 Makers Limited on the date of issue is ₹ 25 per share.

Makers Limited also agrees to pay additional consideration of ₹ 15,00,000, if the cumulative profit earned by D Limited exceeds ₹ 1 crore over the next three years. On the date of acquisition, D Limited 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. D Limited incurred ₹ 1,50,000 in relation to the acquisition. It measures Non-controlling interest at fair value.

How will the acquisition of D Ltd. be accounted by Makers Limited, under Ind AS 103? Prepare detailed workings and pass the necessary journal entries. **[RTP MAY 2021]**

Ans: Computation of Goodwill / Capital reserve on consolidation as per Ind AS 103

Particulars	INR
Cost of investment:	
Share exchange (50,000 x 25)	12,50,000
Cash consideration	50,00,000
Contingent consideration	<u>9,80,000</u>
Consideration transferred at date of acquisition [A]	72,30,000
Fair value of non-controlling interest at date of acquisition (1,00,000 x 35% x 12) [B]	4,20,000
Total [C] = [A] + [B]	76,50,000
Net assets acquired at date of acquisition [D]	(80,00,000)
Capital Reserve [D] – [C]	3,50,000

In a business combination, acquisition-related costs (including stamp duty) are expensed in the period in which such costs are incurred and are not included as part of the consideration transferred. Therefore, ₹ 1,50,000 incurred by D Ltd. in relation to acquisition, will be ignored by Makers Ltd.

Journal entry at the date of acquisition by Makers Limited as per Ind AS 103:

	₹	₹
Identifiable net assets	Dr. 80,00,000	
To Equity share capital (50,000 x 10)		5,00,000
To Securities Premium (50,000 x 15)		7,50,000
To Cash		50,00,000
To Provision for contingent consideration to D Ltd.		9,80,000
To Non-controlling Interest		4,20,000
To Capital Reserve		3,50,000

Note: Since ₹ 1,50,000 is incurred by D Ltd., no entry is passed for it in the books of Makers Ltd.

Q39: Sun Limited and Moon Limited amalgamated from 1st April, 2021. A new company Sunmoon 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

Particulars	Note No.	Sun Limited (₹)	Moon Limited (₹)
-------------	----------	-----------------	------------------

ASSETS			
Non-current assets			
Property, plant and equipment		1,70,00,000	1,50,00,000
Financial assets			
Investment		21,00,000	11,00,000
Current assets			
Inventory		25,00,000	55,00,000
Financial assets			
Trade receivables		36,00,000	80,00,000
Cash and cash equivalent		9,00,000	8,00,000
Total		2,61,00,000	3,04,00,000
EQUITY AND LIABILITIES			
Equity			
Equity share capital (FV ₹ 10 each)		1,20,00,000	1,40,00,000
Other equity		61,00,000	54,00,000
Liabilities			
Non-current liabilities	1		
Financial liabilities			
Borrowings (12% Debentures)		60,00,000	80,00,000
Current liabilities			
Financial liabilities			
Trade payables		20,00,000	30,00,000
Total		2,61,00,000	3,04,00,000

Notes to Accounts:

	Sun Limited ₹	Moon Limited ₹
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

Sunmoon 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 Sunmoon 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 Sunmoon Limited.

The fair value of net assets as at 31st March, 2021 of Sun Limited and Moon Limited are as follows:

Assets	Sun Limited	Moon Limited
--------	-------------	--------------

	₹	₹
Property, Plant and Equipment	1,90,00,000	1,70,00,000
Inventory	26,00,000	58,00,000
Fair value of the Business	2,20,00,000	2,80,00,000

[Exam Dec 21 (14 Marks); MTP May 2023]

Ans: 1. Determination of larger entity out of Sun Ltd. and Moon Ltd.

The management of a larger entity (out of Sun Limited and Moon Limited) will take the control of the Sunmoon Ltd. Since, here Sun Ltd. and Moon Ltd. are not under common control and hence accounting prescribed under Ind AS 103 for business combination will be applied. As per the accounting guidance provided in Ind AS 103, sometimes the legal acquirer may not be the accounting acquirer. In the given scenario although Sunmoon Ltd. is issuing the shares but management of a larger entity out of Sun Ltd. and Moon Ltd. will have control of Sunmoon Ltd.

This can be determined by the following table:

(₹)

		Sun Ltd.	Moon Ltd.
Fair Value	A	2,20,00,000	2,80,00,000
Value per share	B	10	10
Number of shares	A/B = C	22,00,000	28,00,000
Total number of shares in Sunmoon Ltd. will be 50,00,000 shares (22,00,000 + 28,00,000)			
Thus, % held by each company in Sunmoon Ltd.	[(C/50,00,000) x 100]	44%	56%

Note: It is a case of Reverse Acquisition. Since post-merger, Moon Ltd. is bigger in size which is a clear indicator that Moon Ltd. will have control of Sunmoon Ltd. and will be considered as an accounting acquirer. Accordingly, Moon Ltd.'s assets and liabilities will be recorded at historical cost in the merged financial statements.

2. Computation of Purchase Consideration and the manner in which it will be discharged

Number of shares to be issued by Moon Ltd. to Sun Ltd. to maintain the same percentage i.e. 56%

Since 14,00,000 shares of Moon Ltd. (given in the balance sheet) represent 56%, the total number of shares would be 25,00,000 shares (14,00,000 shares / 56%).

This implies Moon Ltd. would need to issue 11,00,000 shares (25,00,000 – 14,00,000) to Sun Ltd.

Purchase Consideration = 11,00,000 shares x ₹ 20 per share (ie. 2,80,00,000 / 14,00,000 shares) = ₹ 2,20,00,000.

3. Balance Sheet of Sunmoon Ltd. as on 1.4.2021

ASSETS	Note No.	Amount ₹
Non-current assets		
Property, Plant and Equipment (1,90,00,000 + 1,50,00,000)		3,40,00,000
Goodwill (Refer Working Note)		18,00,000
Financial assets		
Investment (21,00,000 + 11,00,000)		32,00,000
Current assets		
Inventory (26,00,000 + 55,00,000)		81,00,000
Financial assets		
Trade receivables (36,00,000 + 80,00,000)		1,16,00,000
Cash and Cash equivalent (9,00,000 + 8,00,000)		17,00,000
		6,04,00,000
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹ 10 each)	1	2,50,00,000
Other equity	2	1,64,00,000
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings (12% Debentures) (60,00,000 + 80,00,000)	3	1,40,00,000
Current liabilities		
Financial liabilities		
Trade payables (20,00,000 + 30,00,000)		50,00,000
		6,04,00,000

Notes to Accounts

		(₹)	(₹)
1.	Share Capital 25,00,000 Equity Shares of ₹ 10 each (14,00,000 to Moon Ltd. and 11,00,000 as computed above, to Sun Ltd.)		2,50,00,000
2.	Other Equity General reserve of Moon Ltd. Profit and loss of Moon Ltd. Export profit reserve of Moon Ltd. Investment allowance reserve of Moon Ltd. Security premium (11,00,000 shares x ₹ 10)	40,00,000 10,00,000 2,00,000 2,00,000 1,10,00,000	1,64,00,000
3.	Long Term Borrowings 12% Debentures		1,40,00,000

Working Note:

Computation of Goodwill

Assets:		₹
Property, plant and equipment		1,90,00,000
Investment		21,00,000
Inventory		26,00,000
Trade receivables		36,00,000
Cash & cash equivalent		9,00,000
Total assets		2,82,00,000
Less: Liabilities:		
Borrowings (12% Debentures)		(60,00,000)
Trade payables		(20,00,000)
Net assets	A	2,02,00,000
Purchase consideration	B	2,20,00,000
Goodwill	(B-A)	18,00,000

Q40: 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. **[RTP May 2022]**

Ans: The impact on the financial position and results of classifying the payments as remuneration and contingent consideration is tabulated as follows:

	Additional Payment is classified as	
	Remuneration	Contingent consideration
Consideration	900	900
Fair value of additional payment	0	200
Total consideration	900	1,100
Fair value of net assets	(850)	(850)
Goodwill at acquisition date	50	250
Subsequent changes in additional payment	0	0
Total Goodwill	50	250
Cumulative earnings (before considering additional payment)	1,050	1,050
Impact of additional payment	(500)	(300)
Reported results across three years	550	750

Q41. 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:

- (i) Mini Limited will seek an independent valuation for determining fair value of 80MW power plant.
- (ii) Value of other Non-current assets acquired, and Non-current financial liabilities assumed is ₹ 11.10 million and ₹ 32 million respectively.
- (iii) 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	(₹ in Million)
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 instruments	717
Reserves and surplus	2,481
Total equity	3,493

[RTP Nov 2023]

- Ans.** (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 and services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

In the given scenario, acquisition of power plant along with its labour force will be considered as integrated set of activity as it is capable of being generating power. Hence, transaction will be considered as business combination and not asset acquisition and acquisition method of accounting will be applied.

Thus, following will be the case:

- (i) Acquirer – Mini Ltd;
- (ii) Acquiree – Max Ltd;
- (iii) Acquisition date – 1st April, 20X1

(b) **Calculation of Goodwill:**

Particulars		₹ in Million
Purchase consideration	(A)	51
Fair Value of Power Plant – PPE		46.90
Fair Value of other non-current assets		11.10
Fair Value of Intangible Asset (License) – Refer Note 1 below		5
Non-Current Liabilities assumed		(32)
Value of net assets acquired	(B)	31
Goodwill		20

Note 1: The licence to operate power plant is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill though acquirer cannot sell or transfer it separately from the acquired power plant. Intangible Assets needs to be recorded by the acquirer at the time of accounting for acquisition though not recorded by the acquiree in its book.

(c) **Journal Entries for acquiring power plant**

Particulars		₹ in Million	₹ in Million
Fair Value of Power Plant	Dr.	46.90	
Fair Value of other assets	Dr.	11.10	
Fair Value of License acquired	Dr.	5	
Goodwill	Dr.	20	
To Liabilities assumed			32
To Bank (PC paid)			51

Balance Sheet of Mini Limited as at 1st April, 20X1

Particulars	Notes to Accounts	₹ in Million
ASSETS		
Non-current assets		
Property, plant and equipment	1	2,204.90
Intangible Asset (License acquired in business combination)		5.00
Capital work-in-progress		12.00
Goodwill on acquisition		20.00
Deferred Tax Assets (Net)		324.00

Other non-current assets	2	36.10
Total non-current assets		2,602.00
Current assets		
Inventories		368.00
Financial assets		
(i) Investments		45.00
(ii) Trade Receivables		762.00
(iii) Cash and Cash Equivalents	3	59.00
(iv) Bank balances other than (iii) above		28.00
(v) Other financial assets		267.00
Total current assets		1,529.00
Total assets		4,131.00
EQUITY AND LIABILITIES		
Equity		
Equity Share Capital		295.00
Other equity		
Equity component of compound financial instruments		717.00
Reserves and surplus		2,481.00
Total equity		3,493.00
Liabilities		
Non-current liabilities		
Financial Liabilities		
Borrowings	4	300.00
Total non-current liabilities		300.00
Current liabilities		
Financial Liabilities		
(i) Trade payables		302.00
Other current liabilities		36.00
Total current liabilities		338.00
Total liabilities		638.00
Total equity and liabilities		4,131.00

Notes to Accounts**1. Property, Plant and Equipment**

Particulars	₹ in Million
PPE value as on 1st April, 20X1	2,158.00
Add: Fair Value of Power Plant acquired	46.90
Total	2,204.90

2. Other Non-current Assets

Particulars	₹ in Million
Other non-current assets value as on 1st April, 20X1	25.00
Add: Fair Value of Non-current assets acquired	11.10
Total	36.10

3. Cash and Cash equivalents

Particulars	₹ in Million
Cash and Cash equivalents as on 1st April, 20X1	110
Less: Payment of Purchase consideration transferred	(51)
Total	59

4. Non-current Liabilities

Particulars	₹ in Million
Non-current Liabilities value as on 1st April, 20X1	268
Add: Non-current liabilities assumed in acquisition	32
Total	300

- (d) **Subsequent Accounting:** Ind AS 103 provides a measurement period window, wherein if all the required information is not available on the acquisition date, then entity can do price allocation on provisional basis. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as on the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. Any change i.e. increase or decrease in the net assets acquired due to new information available during the measurement period which existed on the acquisition date will be adjusted against goodwill.

Accordingly, in the financial statements for half year ending 30th September, 20X1, Mini Limited will retrospectively adjust the prior year information as follows:

- (i) the carrying amount of PPE (including power plant) as of 1st April, 20X1 is increased by ₹ 8 million (i.e. ₹ 54.90 million minus ₹ 46.90 million). The

adjustment is measured as the fair value adjustment at the acquisition date less the additional depreciation that would have been recognised if the asset's fair value at the acquisition date had been recognised from that date $[(80,00,000/40) \times (6/12) = 0.1 \text{ million}]$

- (ii) the carrying amount of goodwill as of 1st April, 20X1 is decreased by ₹ 8 million; and
- (iii) depreciation expense for the period ending 30th September, 20X1 will increase by ₹ 0.1 million
- (iv) disclose in its financial statements of 1st April, 20X1, that the initial accounting for the business combination has not been completed because the valuation of property, plant and equipment has not yet been received;
- (v) disclose in its financial statements of 30th September, 20X1, the amounts and explanation of the adjustments to the provisional values recognised during the current reporting period. Therefore, Mini Limited discloses that comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by ₹ 8 million, offset by decrease in goodwill of ₹ 8 million.

Journal Entries

(1)	PPE (Power Plant)	Dr.	8 Million	
	To Goodwill			8 Million
(2)	Depreciation	Dr.	0.1 Million	
	To Provision for Depreciation			0.1 Million

Q42: The draft balance sheets of Swan Limited and Duck Limited as at 31st March 2023 is as under:

Particulars	Amount ₹ in lakhs	
	Swan Limited	Duck Limited
Assets		
Non-Current Assets		
Property, Plant and Equipment	800	1,000
Investments	900	240
Current Assets		
Inventories	360	260
Financial Assets		
- Trade Receivables	1,040	540
- Cash & Cash Equivalents	520	290
Other Current Assets	<u>700</u>	<u>350</u>
Total	<u>4,320</u>	<u>2,680</u>

	Swan Limited	Duck Limited
Equity and Liabilities		
Equity		
Share Capital		
- Swan Limited: Equity Shares of ₹ 10 each	1,200	-
- Duck Limited: Equity Shares of ₹ 100 each	-	900
Other Equity	1,450	420
Non-Current Liabilities		
Financial Liabilities		
- Long-Term Borrowings	700	500
Long-Term Provisions	140	200
Deferred Tax	80	-
Current Liabilities		
Financial Liabilities		
- Short-Term Borrowings	250	290
- Trade Payables	500	370
Total	4,320	2,680

On 1st April 2023, Swan Limited acquired 80% equity shares of Duck Limited. Swan Limited agreed to pay to each shareholder of Duck Limited, ₹ 20 per equity share in cash and to issue five equity shares of ₹ 10 each of Swan Limited in lieu of every six shares held by the shareholders of Duck Limited. The fair value of the shares of Swan Limited was ₹ 100 per share as on the date of acquisition.

Swan Limited also agreed to pay an additional consideration being higher of ₹ 90 lakhs and 30% of any excess profits in the first year, after acquisition, over Duck Limited's profits in the preceding 12 months (financial year 2022-2023) made by Duck Limited. The additional amount will be due in 3 years post the date of acquisition. Duck Limited earned ₹ 30 lakhs profit in the preceding year and expects to earn ₹ 40 lakhs in financial year 2023-2024.

The fair value exercise resulted in the following:

- Fair value of Property, Plant and Equipment and Investments of Duck Limited on 1st April, 2023 was ₹ 1,200 lakhs and ₹ 300 lakhs respectively.
- Duck Limited owns a popular brand name that meets the recognition criteria for Intangible Assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of ₹ 250 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.
- Following is the statement of contingent liabilities of Duck Limited as on 1st April, 2023:

Particulars	Fair Value (₹ in lakhs)	Remarks
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Lawsuit filed by a customer for a claim of ₹ 20 lakhs	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 lawsuit will be tax deductible.
Income tax demand of ₹ 70 lakhs raised by tax authorities. Duck Limited has challenged the demand in the High Court	20	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

- d) Duck Limited had certain equity settled share-based payment awards (original award) which were replaced by the new awards issued by Swan Limited. As per the terms of original awards, the vesting period was 5 years and as of the acquisition date the employees of Duck Limited had already served 2 years of service. As per the new awards, the vesting period has been reduced to 1 year (1 year from the acquisition date). The fair value of the award on acquisition date was as follows:
- Original Awards: ₹ 12 lakhs
 - New Awards: ₹ 18 lakhs.
- e) Further, Swan Limited has also agreed to pay one of the founder shareholder of Duck Limited a sum of ₹ 15 lakhs provided he stays with the Company for two years after the acquisition.
- f) The acquisition cost of Swan Limited for Duck Limited was ₹ 26 lakhs.
- g) The applicable tax rate for both the companies is 30%.
- h) Assume 10% per annum discount rate.
- i) Also, assume, unless stated otherwise, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to prepare opening Consolidated Balance Sheet of Swan Limited as on 1st April 2023. Working Notes should form part of your answer. **[Exam May 23 (15 Marks)]**

Ans. (a) **Consolidated Balance Sheet of Swan Ltd as on 1st April, 2023**

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	9	2,000.00
Intangible assets	10	250.00
Financial assets		
Investment	11	1,200.00
Current assets		

Inventories	12	620.00
Financial assets:		
Trade receivables	13	1,580.00
Cash and cash equivalents	14	640.00
Other current assets	15	<u>1,050.00</u>
Total		<u>7,340.00</u>
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each	1	1,260.00
Other equity	2	2,475.18
Non-controlling interest (W.N.4)		330.70
Non-current liabilities		
Financial liabilities		
Long-term borrowings	3	1,200.00
Long-term provisions	4	407.62
Deferred tax liability	5	231.50
Current Liabilities		
Financial liabilities		
Short-term borrowings	6	540.00
Trade payables	7	870.00
Short-term provision	8	<u>25.00</u>
Total		<u>7,340.00</u>

Notes to Accounts (All figures are ₹ in lakhs)

1. Equity Share capital

Equity shares of ₹ 10 each as per the balance sheet before acquisition of Duck Ltd.	1,200	
Shares allotted to Duck Ltd. (7,50,000 x 80% x ₹ 10)	<u>60</u>	1,260

2. Other Equity

As per the balance sheet before acquisition of Duck Ltd.	1,450	
Less: Acquisition cost <u>(26)</u>	1,424	
Replacement award	4.80	
Security Premium (7,50,000 shares x 80% x ₹ 90)	540	
Capital Reserve (W.N.5)	<u>506.38</u>	2,475.18

3. Long-term borrowings

As per the balance sheet before acquisition of Duck Ltd.	700	1,200
Duck Ltd.	<u>500</u>	

4. Long-term provisions

As per the balance sheet before acquisition of Duck Ltd.	140	407.62
Deferred consideration	67.62	
Duck Ltd.	<u>200</u>	

5. Deferred tax liability

As per the balance sheet before acquisition of Duck Ltd.	80	231.50
Deferred tax impact due to acquisition of Duck Ltd. (W.N.2)	<u>151.50</u>	

6. Short term borrowings

As per the balance sheet before acquisition of Duck Ltd.	250	540
Duck Ltd.	<u>290</u>	

7. Trade payables

As per the balance sheet before acquisition of Duck Ltd.	500	870
Duck Ltd.	<u>370</u>	

8. Short-term provisions

Lawsuit damages	5	25
Income-tax demand	<u>20</u>	

9. Property, plant and equipment

As per the balance sheet before acquisition of Duck Ltd.	800	2000
Duck Ltd.	<u>1,200</u>	

10. Intangible assets

Brand of Duck Ltd. acquired		250
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11. Investment

As per the balance sheet before acquisition of Duck Ltd.	900	1,200
Duck Ltd.	<u>300</u>	

12. Inventories

As per the balance sheet before acquisition of Duck Ltd.	360	620
Duck Ltd.	<u>260</u>	

13. Trade receivables

As per the balance sheet before acquisition of Duck Ltd.	1,040	1,580
Duck Ltd.	<u>540</u>	

14. Cash and cash equivalents

As per the balance sheet before acquisition of Duck Ltd.	520		640
Less: Acquisition cost paid	(26)		
Less: Paid to Duck Ltd.	<u>(144)</u>	350	
Duck Ltd.		<u>290</u>	

15. Other current assets

As per the balance sheet before acquisition of Duck Ltd.	700	1,050
Duck Ltd.	<u>350</u>	

Working Notes:**1. Computation of Purchase Consideration**

Particulars	No. of shares	₹ in lakhs
Share capital of Duck Ltd.		<u>900</u>
Number of shares	9,00,000	
Shares to be issued (5 shares against 6 shares of Duck Ltd.)	7,50,000	
Fair value of Swan Ltd.'s share is ₹ 100 per share		
Purchase consideration		
Shares issued (7,50,000x 80% x ₹ 100 per share) (A)		600
Cash payment (₹ 20 x 9,00,000 x 80%) (B)		144
Deferred consideration (discounting ₹ 90 lakhs for 3 years @10%) (C)		67.62
Replacement award [Market based measure of the acquiree award (12) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (5) of the acquiree award (ie 12 x 2/5)] (D)		<u>4.80</u>
Purchase consideration for 70% shares (A + B + C + D)		<u>816.42</u>

2. Computation of deferred tax impact due to change in fair value of asset and liabilities acquired

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	1,000	1,200	200
Intangible assets (Brand)	-	250	250
Investment	240	<u>300</u>	<u>60</u>
		1,750	510
Less: Contingent liability acquired Provision for lawsuit damages			<u>(5)</u>
Net difference in fair value			<u>505</u>
Deferred tax liability @ 30%			151.5

3. Computation of fair value of net identifiable assets acquired from Duck Ltd.

Particulars	Book value
Total assets as per the balance sheet	2,680
Add: Fair value adjustment in PPE and Investment (200+60)	260
Add: Intangible assets (Brand)	<u>250</u>
Fair value of total identifiable assets	3,190
Less: Total liabilities as per the balance sheet (500+200+290+370)	(1,360)
Less: Contingent liability acquired	
Lawsuit damages	5
Income tax demand	<u>20</u>
Less: Defer tax liability (W.N.2)	<u>(151.50)</u>
Fair value of net identifiable assets (100%)	<u>1,653.50</u>

4. Computation of non-controlling interest in Duck Ltd. (Proportionate share basis)

Non-controlling interest (1,653.50 x 20%) = 330.70

5. Computation of capital reserve on acquisition of Duck Ltd.

Particulars	Book value
Fair value of net identifiable assets	1,653.50
Less: Purchase consideration	(816.42)
Less: NCI (W.N.4)	(330.70)
Capital reserve	506.38

Notes:

- a) The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered

till the date of the acquisition. Accordingly, ₹ 4.8 lakh ($12 \times 2/5$) is considered as a part of purchase consideration and is credited to Swan Ltd.'s equity as this will be settled in its own equity. Since the fair value of the award on the acquisition date is ₹ 18 lakh the balance of $(18 - 4.8)$ ₹ 13.2 lakh will be recorded as employee expense in the books of Duck Ltd. over the remaining life, which is 1 year in this scenario.

With respect to deferred consideration, ₹ 90 lakh is the minimum payment to be paid after 3 years. The other element is if company meet certain target then they will get 30% of that or ₹ 90 lakh whichever is higher. In the given case, since the minimum what is expected to be paid the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.

- b) The additional consideration of ₹ 15 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the statement of profit and loss of Duck Ltd.

Q43: On 1st April 20X1, J Ltd. acquired a new subsidiary, B Ltd., purchasing all 150 million shares of B Ltd. The terms of the sale agreement included the exchange of four shares in J Ltd. for every three shares acquired in B Ltd. On 1st April 20X1, the market value of a share in J Ltd. was ₹ 10 and the market value of a share in B Ltd. ₹ 12.00.

The terms of the share purchase included the issue of one additional share in J Ltd. for every five acquired in B Ltd. if the profits of B Ltd. for the two years ending 31st March 20X2 exceeded the target figure. Current estimates are that it is 80% probable that the management of B Ltd. will achieve this target.

Legal and professional fees associated with the acquisition of B Ltd. shares were ₹ 12,00,000, including ₹ 2,00,000 relating to the cost of issuing shares. The senior management of J Ltd. estimate that the cost of their time that can be fairly allocated to the acquisition is ₹ 2,00,000. This figure of ₹ 2,00,000 is not included in the legal and professional fees of ₹ 12,00,000 mentioned above.

The individual Balance Sheet of B Ltd. at 1st April 20X1 comprised net assets that had a fair value at that date of ₹ 1,200 million. Additionally, J Ltd. considered B Ltd. possessed certain intangible assets that were not recognized in its individual Balance Sheet:

- Customer relationships – reliable estimate of value ₹ 100 million. This value has been derived from the sale of customer databases in the past.
- An in process research and development project that had not been recognised by B Ltd. since the necessary conditions laid down in Ind AS for capitalisation were only just satisfied at 31st March 20X2. However, the fair value of the whole project (including the research phase) is estimated at ₹ 50 million.
- Employee expertise – estimated value of Director employees of B Ltd. is ₹ 80 million.
- The market value of a share in J Ltd. on 31st March 20X2 was ₹ 11.

Compute the goodwill on consolidation of B Ltd. that will appear in the consolidated balance sheet of J Ltd. at 31st March 20X2 with necessary explanation of adjustments therein.

[MTP Nov 23; MAY 24; May 25]

Ans: Calculation of purchase consideration:

Particulars	₹ in million
Market value of shares issued (150 million x 4/3 x ₹ 10)	2,000
Initial estimate of market value of shares to be issued (150 million x 1/5 x ₹ 10)	<u>300</u>
Total consideration	<u>2,300</u>

Contingent consideration is recognized in full if payment is probable.

As per para 53 of Ind AS 103, acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109.

Statement of fair value of identifiable net assets at the date of acquisition

Particulars	₹ in million
As per Bosman Ltd.'s Balance Sheet	1,200
Fair value of customer relationships	100
Fair value of research and development project	<u>50</u>
Total net assets acquired	1,350

As per Ind AS 38 'Intangible assets', intangible assets can be recognized separately from goodwill provided they are identifiable, are under the control of the acquiring entity, and their fair value can be measured reliably.

Customer relationships that are similar in nature to those previously traded, pass these tests but employee expertise fail the 'control' test. Both the research and development phases of in process project can be capitalised provided their fair value can be measured reliably.

Statement of computation of goodwill

Particulars	₹ in million
Fair value of consideration given	2,300
Fair value of net assets acquired	<u>(1,350)</u>
Goodwill on acquisition	<u>950</u>

Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration. In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

- There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavourable conditions (for the issuer of the instrument).
- If the instrument will or may be settled in the issuer's own equity instruments, then it is:
 - a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or
 - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfillment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

Q44: A Limited and B Limited are engaged in the manufacture of pharmaceuticals. On 1st June, 2024, A Limited acquired 15% of equity shares of B Limited. On 1st October, 2024, A Limited obtains control of B Limited when it acquires a further 55% of B Limited's shares, thereby resulting into a total holding of 70%. The fair value of the shares of B Limited was ₹ 40 per share as on that date.

Prior to the acquisition of additional 55% stake by A Limited on 1st October, 2024, the Balance Sheets of the two companies stood as under: (₹ in lakhs)

Particulars	A Ltd.	B Ltd.
Assets		
Non-Current Assets		
Property, Plant and Equipment	600	400
Investments	210	-
(6,00,000 Shares of B Ltd. Acquired on 1 st June, 2024)		
Current Assets		
Inventories	500	150
Financial Assets		
Trade receivables	450	300
Cash and cash equivalents	400	100

Other Current Assets	200	230
Non-current assets held for sale	-	250
Total	2,360	1,430
Equity and Liabilities		
Equity		
Share Capital – Equity Shares of ₹ 100 each	500	-
Share Capital – Equity Shares of ₹ 10 each	-	400
Other Equity	810	225
Non-Current Liabilities		
Financial Liabilities		
Long-term Borrowings	250	200
Long-term Provisions	50	70
Deferred Tax Liability	40	-
Current Liabilities		
Financial Liabilities		
Short-term Borrowings	400	285
Trade Payables	310	250
Total	2,360	1,430

In consideration of the additional stake acquired by A Limited on 1st October, 2024, it agreed to pay to each selling shareholder of B Limited a sum of ₹ 15 per share in cash and issue 1 Equity Share of ₹ 100 each of A Limited in lieu of 8 Equity Shares of ₹ 10 each held by the selling shareholder in B Limited. The fair value of the shares of A Limited as on 1st October, 2024 is ₹ 160 per share.

In addition to the above:

- A Limited agreed to pay an additional payment as consideration that is higher of ₹ 35 lakhs and 25% of any excess profit in the first year, after acquisition over its profits in the preceding one year made by B Limited. This additional amount would be due after 2 years. B Limited has earned ₹ 10 lakhs profit in the preceding year and expects to earn another ₹ 20 lakhs.
- A Limited also agreed to pay one of the promoter shareholders of B Limited a payment of ₹ 15 lakhs provided he stays with the company for two years after acquisition.
- A Limited* had a certain equity settled share-based payment award (Original award) which was replaced by the new award issued by B Limited**. As per the original terms, the vesting period was 4 years and as of the acquisition date, the employees of B Limited have already served 2 years of service. As per the replaced award, the vesting period is

reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as under:

- i) Original Award: ₹ 5 lakhs
 - ii) Replacement Award: ₹ 8 lakhs
- d) The fair value exercise resulted in the following:
- i) The fair value of Property, Plant and Equipment and Inventory of B Limited as on 1st October, 2024 was ₹ 480 lakhs and ₹ 170 lakhs respectively.
 - ii) The carrying value of Non-Current Asset held for sale of ₹ 250 lakhs of B Limited represents its fair value less cost to sell in accordance with the relevant Ind AS.
 - iii) B Limited has developed and patented a new drug for Parkinson disease which has been approved for clinical use. The cost of developing the drug was ₹ 140 lakhs. Based on early assessment of its sales success, the valuer has estimated its market value at ₹ 200 lakhs.
 - iv) B Limited had a lawsuit for infringement of Trademark pending with a competitor who had made a claim of ₹ 50 lakhs. B Limited has disclosed the same as a contingent liability as it is not probable that the amount would be payable. Management reliably estimated the fair value of the liability to be 10 lakhs. Any sum which would be paid in respect of the lawsuit would be tax deductible.
- e) The cost of capital of A Limited is 10%. The appropriate discount factor for ₹ 1 @ 10% payable at the end of 1st year is 0.91 and 2nd year is 0.83.
- f) The applicable tax rate for both the entities is 30%.

Unless stated otherwise, all items have a fair value and tax base equal to their carrying amounts at the acquisition date. A Limited chooses to measure the Non-Controlling Interest in B Limited as per Proportionate Share of identifiable net assets method.

You are required to prepare the opening Consolidated Balance Sheet of A Limited as on 1st October, 2024 as per the applicable Ind AS. Working Notes should form part of your answer.

* PS: Read 'A Limited' as 'B Limited'.

**PS: Read 'B Limited' as 'A Limited'.

[Exam May 25 (14 Marks)]

Ans: Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd. as at 1st October, 2024

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	1,080.00
Goodwill	2	461.95
Intangible assets (patents)		200.00
Current assets		

Inventories	3	670.00
Financial assets	4	170.00
Cash and cash equivalents	5	750.00
Trade receivables		
Other current assets	6	430.00
Assets held for sale		<u>250.00</u>
Total		<u>4,011.95</u>
Equity and Liabilities		
Equity		
Other equity	7	775.00
Non-controlling interest (W.N.4)	8	1007.50
Non-current liabilities		248.40
Financial liabilities	9	450.00
- Long-term borrowings	10	149.05
Long-term provisions		
Deferred tax liabilities	11	127.00
Current Liabilities		
Financial liabilities		
- Short-term borrowings	12	685.00
- Trade payables	13	560.00
- Provision for lawsuit damages		10.00
		<u>4,011.95</u>

Notes to Accounts

1. Property, Plant and Equipment

₹ in lakhs

Particulars			
A Ltd.		600.00	
B Ltd.	400.00		
Add: Fair value gain	<u>80.00</u>	<u>480.00</u>	1,080.00

2. Goodwill

₹ in lakhs

Particulars	
Goodwill on acquisition of B Ltd. (Refer W.N.5)	461.95

3. Inventories

₹ in lakhs

Particulars			
A Ltd.		500.00	
B Ltd.	150.00		
Add: Fair value given	20.00	170.00	670.00

4. Cash and cash equivalents

₹ in lakhs

Particulars			
A Ltd.	400.00		
Less: Paid to B Ltd.'s Shareholders	(330.00)	70.00	
B Ltd.		<u>100.00</u>	170.00

Note: The additional consideration paid to promoter shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expense in the income statement by A Ltd.

5. Trade receivables ₹ in lakhs

Particulars			
A Ltd.	450.00		
B Ltd.	<u>300.00</u>		750.00

6. Other current assets ₹ in lakhs

Particulars			
A Ltd.	200.00		
B Ltd.	<u>230.00</u>		430.00

7. Equity ₹ in lakhs

Particulars		
Equity Share Capital 7,75,000 Equity shares of ₹ 100 each (Out of the above, 2,75,000 Equity shares of ₹ 100 each allotted to shareholders of B Ltd for consideration other than cash)		775.00

8. Other equity ₹ in lakhs

Particulars			
A. Retained earnings of A Ltd.	810.00		
Add: Gain on previously acquired shares of A Ltd.	<u>30.00</u>	840.00	
B. Replacement award		2.50	
C. Security premium (2,75,000 shares x ₹ 60)		<u>165.00</u>	1007.50

9. Long-term borrowings ₹ in lakhs

Particulars			
A Ltd.	250.00		
B Ltd.	<u>200.00</u>		450.00

10. Long term provisions ₹ in lakhs

Particulars			
A Ltd.	50.00		
Add: Deferred consideration	<u>29.05</u>	79.05	
B Ltd.		<u>70.00</u>	149.05

11. Deferred tax liabilities

₹ in lakhs

Particulars			
Deferred tax liability of A Ltd	40.00		
Deferred tax liability (W.N. 2)	<u>87.00</u>		127.00

12. Short term borrowings

₹ in lakhs

Particulars			
A Ltd.	400.00		
B Ltd.	285.00		685.00

13. Trade payables

₹ in lakhs

Particulars			
A Ltd.	310.00		
B Ltd.	250.00		560.00

Working Notes

1. Calculation of purchase consideration

in lakhs

Investment in B Ltd.			
Shares acquired			
On 1 st June, 2024	15%	$[(400/10) \times 15\% \times ₹ 40]$	240.00
On 1 st October, 2024	55%		
Own equity given		$(40 \times 55\%) \times 1/8 \times ₹160$	440.00
Cash		$(40 \times 55\%) \times ₹ 15$	330.00
Contingent consideration		(35×0.83)	29.05
Replacement award		$(5 \times 2/4)$	<u>2.50</u>
			<u>1041.55</u>

2. Calculation of deferred tax on assets and liabilities acquired as part of the business combination

Item	₹ in lakhs				
	Book value	Fair value	Tax base	Taxable (deductible) temporary difference	Deferred tax assets (liability) @ 30%

Property, plant and equipment	400.00	480.00	400.00	80.00	(24.00)
Intangible assets		200.00	0.00	200.00	(60.00)
Inventories	150.00	170.00	150.00	20.00	(6.00)
Trade receivables	300.00	300.00	300.00		
Cash and cash equivalents	100.00	100.00	100.00		
Other current assets	230.00	230.00	230.00		
Non-current asset held for sale	<u>250.00</u>	<u>250.00</u>	<u>250.00</u>		
(A)	<u>1,430.00</u>	<u>1,730.00</u>	<u>1,430.00</u>	<u>300.00</u>	<u>(90.00)</u>
Trade payables	250.00	250.00	250.00		
Long-term provisions	70.00	70.00	70.00		
Short-term borrowings	285.00	285.00	285.00		
Contingent liability		<u>10.00</u>		<u>(10.00)</u>	<u>3.00</u>
(B)	<u>605.00</u>	<u>615.00</u>	<u>605.00</u>	<u>(10.00)</u>	<u>3.00</u>
Deferred tax liabilities (A-B)					(87.00)

3. Calculation of fair value of identifiable net assets acquired

	₹ in lakhs	₹ in lakhs
Property, plant and equipment	480.00	
Intangible assets	200.00	
Inventories	170.00	
Trade receivables	300.00	
Cash and cash equivalents	100.00	
Non-current asset held for sale	250.00	
Other current assets	230.00	
Total assets		1,730.00
Less: Long-term borrowings	200.00	
Trade payables	250.00	
Long-term provisions	70.00	
Short-term borrowings	285.00	
Contingent liabilities	10.00	
Deferred tax liabilities	87.00	
Total liabilities		<u>(902.00)</u>
Net identifiable assets		<u>828.00</u>

4. Calculation of NCI by proportionate share of identifiable net assets

Identifiable net assets of S Ltd. on 1st October, 2024 (Refer W.N.3) = ₹ 828.00 lakhs
 NCI on 1st October, 2024 = 828.00 lakhs x 30% = 248.40 lakhs

5. Calculation of Goodwill

Particulars	₹ in Lakhs
Fair Value of Net Identifiable Assets	828.00
Less: NCI	(248.40)
	579.60
Less: Purchase Consideration	(1041.55)
Goodwill on 1 st October, 2024	<u>461.95</u>

Q45: Bulldozer Ltd. is engaged in the business of manufacturing of heavy bulldozers, which are mainly used to dismantle the buildings and concrete structures. The company is willing to enter into the business of manufacturing of excavators for the purpose of digging the plain land. For this purpose, the company acquires 25% stake in HD Excavators Ltd. for ₹ 8,00,000 on 1st October, 20X1 and further 35% stake on 1st February, 20X2 for ₹ 12,25,000.

Following is the summarized Balance Sheet of HD Excavators Ltd. as at 1st February, 20X2:

	Carrying Value (₹)	Fair Value (₹)
ASSETS		
Property, Plant and Equipment	15,50,000	22,50,000
Investment in Bonds	12,00,000	15,00,000
Trade Receivables	1,50,000	1,50,000
	29,00,000	
EQUITY AND LIABILITIES		
Share Capital	3,00,000	
Reserves	16,50,000	
Trade Payables	9,50,000	
	29,00,000	

HD Excavators Ltd. sells the small excavators under the brand name 'Mini Shaktiman' which has a fair value of ₹ 4,50,000 as at 1st February, 20X2. This is a self-generated brand, therefore, HD Excavators Ltd. has not recognised the brand in its books of accounts.

Following is the summarized separate Balance Sheet of Bulldozer Ltd. as at 1st February, 20X2:

	₹
ASSETS	
Property, Plant and Equipment	40,50,000
Investment in HD Excavators Ltd.	20,25,000
Trade Receivables	2,40,000

Cash and Bank balances	15,60,000
EQUITY AND LIABILITIES	78,75,000
Share Capital	15,00,000
Reserves	35,25,000
Short-term Loan	12,00,000
Trade Payables	9,00,000
Other Current Liabilities	7,50,000
	78,75,000

In relation to the acquisition of HD Excavators Ltd., you are required to:

- Pass the necessary journal entries in the books of Bulldozer Ltd. to give effect of business combination in accordance with Ind AS 103 as at acquisition date of 1st February, 20X2. NCI is measured by the entity at fair value. Provide working notes and ignore tax implications; and
- Prepare a Consolidated Balance Sheet of Bulldozer Ltd. as at 1st February, 20X2.

[MTP Jan 2026]

Ans: **Journal Entries**

		₹	₹
Property Plant and Equipment	Dr.	22,50,000	
Investment in bonds	Dr.	15,00,000	
Trade receivables	Dr.	1,50,000	
Brand value	Dr.	4,50,000	
Goodwill (balancing figure)	Dr.	1,00,000	
To Investment in HD excavators Limited			20,25,000
To Profit and loss account			75,000
To Trade payables			9,50,000
To Non-controlling interest			14,00,000
(Being assets and liabilities acquired at fair value and previous investment considered at fair value on the acquisition date)			

Consolidated Balance Sheet of Bulldozer Limited and its subsidiary

HD Excavators Limited as at 1st February 20X2

	Notes	Amount ₹
ASSETS		
Non-current assets		
(a) Property Plant and Equipment	1	63,00,000
(b) Goodwill		1,00,000

(c) Other Intangible Assets	2	4,50,000
(d) Financial Assets		
(i) Investment in bonds		15,00,000
Current assets		
(a) Financial assets		
(i) Trade receivables	3	3,90,000
(ii) Cash and cash equivalents	4	15,60,000
Total		1,03,00,000
EQUITY AND LIABILITIES		
Equity		
Equity share capital		15,00,000
Other equity	5	36,00,000
Non-controlling interest		14,00,000
Current liabilities		
(a) Financial liabilities		
(i) Borrowings	6	12,00,000
(ii) Trade payables	7	18,50,000
(b) Other current liabilities	8	7,50,000
Total		1,03,00,000

Notes to Accounts

S.N.		₹	₹
1	Property Plant and Equipment		
	Bulldozer Limited	40,50,000	
	HD Excavators Limited	22,50,000	63,00,000
2	Other Intangible Assets		
	Brand value of HD excavators limited		4,50,000
3	Trade receivables		
	Bulldozer Limited	2,40,000	
	HD Excavators Limited	1,50,000	3,90,000
4	Cash and cash equivalents		
	Bulldozer Limited		15,60,000
5	Other equity - Reserves		
	Bulldozer Limited	35,25,000	
	Add: Gain on Investment in HD Excavators Limited	75,000	36,00,000
6	Borrowings		
	Short term loans of Bulldozer Limited		12,00,000

7	Trade payables		
	Bulldozer Limited	9,00,000	
	HD Excavators Limited	9,50,000	
	Other current liabilities		18,50,000
8	Bulldozer Limited		7,50,000

Working Notes

1. Calculation of gain or loss on fair value of shares on the acquisition date 1st February 20X2

	₹
35% shares purchased on 1st February 20X2 fair value	12,25,000
25% shares purchased on 1st October 20X1 at ₹ 8,00,000	
Fair value is equal to $[(12,25,000 / 35\%) \times 25\%]$	8,75,000
Total consideration at fair value on acquisition date	21,00,000
Less: Cost of investment (8,00,000 + 12,25,000)	(20,25,000)
Gain recognised to profit or loss / OCI as appropriate	75,000

2. Measurement of non-controlling interest on fair value basis

Share of NCI (100 - 25 - 35)	40%
Taking fair value of shares on 1st February 20X2 as a base	
$[(21,00,000/60\%) \times 40\%]$ or $[(12,25,000 \times 40\%) / 35\%]$	14,00,000

NOTES

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