



1. Concept BOOK - Indas 103 & Indas 110

Income Tax Law & Practices (SS Jain Subod PG(Autonomous) College)



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TOPIC 23

INDAS – 27 SEPARATE FINANCIAL STATEMENTS

*measurement
provision of
Investment*

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Quote:

***“Failure will Never Overtake Me
If My Determination to Succeed is Strong Enough”***

(1) DETAILED OVERVIEW OF THE STANDARD

The detailed summary of this standard is as follows:

1. This standard deals with **ACCOUNTING FOR INVESTMENTS** in Subsidiary Co., Associate Co. and Joint venture Co. in the individual financial statements of Investor (i.e. Parent Co.)
2. Separate financial statements are presented in addition to:
 - a. Consolidated Financial Statements (prepared in case of a subsidiary or subsidiaries); or
 - b. Financial Statements in which investments in associates and joint ventures are accounted for using equity method as per IndAS 28.
3. Entity may present separate financial statements as its only financial statements if it is:
 - a. Exempt from consolidation; or
 - b. Exempt from applying equity method; or
 - c. An investment entity and apply exception to consolidation for all of its subsidiaries.
4. Investor (i.e. Parent Co.) shall account for its investments in Subsidiary, Associate and Joint Venture either at:
 - Cost or
 - As per Ind AS 109 Financial Instruments i.e. Fair Value (FVTPL or FVTOCI)
 (i.e. we have choice to value our investments in individual financial statements at Cost or at Fair Value)
5. Income from the Investments in Subsidiaries/Joint Ventures/Associates shall be recognised in P&L Statement of the Holding/Investor **when right to receive such income is established.**

(2) CATEGORY WISE VALUATION OF INVESTMENTS UNDER INDAS 27

- The entity shall apply the same measurement rules for each category of investment.
- An entity shall classify investment in subsidiaries, associates or joint ventures into different categories:

✓ 1. Investments in subsidiaries

Subsidiaries A - (Cost)

Subsidiaries B - (Cost)

✓ 2. Investments in associates

Associates A - (Fair Value)

Associate B - (Fair Value)

✓ 3. Investments in joint ventures

JV A - (Fair Value)

JV B - (Fair Value)

- For the purpose of Ind AS 27 "category of investments" means broad category i.e. (a) Investments in subsidiary, (b) Investments in associates and (c) Investments in Joint ventures.
 - It is possible to apply "cost" approach in respect of one category and "fair value" approach for another category.
 - However, it is not possible to apply "cost" approach to one subsidiary and "fair value" approach to another subsidiary.

(3) WHAT IF INVESTMENTS ARE HELD FOR SALE?

Investments accounted for at cost shall be accounted for in accordance with **Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'** when they are classified as held for sale. The measurement of investments accounted for in accordance with Ind AS 109 is **not changed** in such circumstances.

Example

An entity has invested in a subsidiary and a joint venture. Entity has elected to measure investment in subsidiary at cost and measure investment in joint venture at fair value through profit or loss in accordance with Ind AS 109. Now, at the end of the year, both these investments are held for sale. In such case, the investment in subsidiary will be measured as per Ind AS 105 i.e. at lower of its carrying amount and fair value less costs to sell. However, investment in joint venture is continued to be accounted at fair value through profit or loss as per Ind AS 109.

Investments held by investment entities and similar entities

Ind AS 110 requires an investment entity to measure its investment in subsidiaries **at fair value through profit or loss as per Ind AS 109**. Then the investment entity shall account for those investments in the same i.e. at fair value through profit or loss in the separate financial statements. Further, Ind AS 28 provides that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures **at fair value through profit or loss** in accordance with Ind AS 109. Hence, if an entity makes such election, then it shall also account for those investments in the same way i.e. at fair value through profit or loss in its separate financial statements.

Note: Some important facts for Investment Entities:

1. It always measures its investments at FVTPL as per IndAS 109 (not even FVTOCI)
2. It is Exempt from Preparation of Consolidated Financial Statement generally
3. If investment entity (or any other similar entity) is having Investment in Subsidiary/Associate/JV then such Investment shall be measured @ FVTPL Only. (this is exception of IndAS 27)

(4) ARE THESE INVESTMENTS SUBJECT TO IMPAIRMENT AS PER IND AS 36?

- **If measured at Cost** - Yes and refer IndAS 36
- **If measured at Fair Value** - No.

(5) WHEN A PARENT CEASES TO BE INVESTMENT ENTITY OR BECOME INVESTMENT ENTITY?

<i>When an Entity becomes an Investment Entity</i>	<i>When an Entity ceases to be an Investment Entity</i>
<i>Account at FVTPL as per Ind AS 109</i> Note: any difference between Carrying Amount vs. Fair Value is Gain/Loss – Taken to Profit & Loss Note: Any difference balance in OCI will be recycled to Profit & Loss	Option I Cost <i>Note: Fair Value on the date of change of status is taken as deemed cost</i> Option II Continue as per Ind AS 109

Example (When an Entity ceases to be an Investment Entity)

A Ltd. was an investment entity and was measuring its investment in subsidiary X Ltd. at fair value. On 1 April 20X1, A Ltd. ceased to be an investment entity. On that date, the fair value of investment in X Ltd. recorded in its books was ₹ 1,00,000. Now, when A Ltd. ceased to be an investment entity, it can measure the investment in X Ltd. either:

- At cost (in such case, the carrying value of ₹ 1,00,000 will be its deemed cost at the date of change in status), or
- Continue to measure in accordance with Ind AS 109

Example (When an Entity becomes an Investment Entity)

A Ltd. holds investment in a subsidiary X Ltd. and it measures its investment in subsidiary at cost. On 1 April 20X1, A Ltd. becomes an investment entity. On that date, the carrying value of investment in X Ltd. recorded in its books was ₹1,00,000. However, the fair value of that investment on the date of change in status was ₹1,50,000. Hence, A Ltd. should record a gain of ₹50,000 that A Ltd. was measuring the above investment at fair value through other comprehensive income in accordance with Ind AS 109 prior to change in status. The cumulative gain recorded in other comprehensive income was ₹50,000. And the carrying value of investment was ₹1,50,000. Hence, on the date of change in status, A Ltd. shall reclassify the gain of ₹50,000 from other comprehensive income to profit or loss as if the investment has been disposed by A Ltd. on that date.

(6) REORGANIZATION OF THE GROUP STRUCTURE

A parent re-organize the structure of its group by establishing a new entity as its parent

Ind AS 27 provides guidance on how to calculate the cost of investment when a parent reorganizes the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

- a) The new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;
- b) The assets and liabilities of the new group and the original group are the same immediately before and after the reorganization; and
- c) The owners of the original parent before the reorganization have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganization,

If above conditions are fulfilled and the new parent elects to account for its investment in the original parent at cost then the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the re-organization.

(7) MAJOR CHANGES IN INDAS 27 FROM IAS 27

Ind AS 27, like other Ind ASs, **has been converged from the global standards**, i.e., IFRSs, which has been made applicable to the Indian entities (based on the net worth criteria) in a phased manner via Ministry of Corporate Affairs Roadmap. While converging from IAS 27, following are the **carve outs** given under Appendix 1 to Ind AS 27, keeping in mind, the requirements of other converged Ind ASs and the economic environment in India:

"IAS 27 allows the entities to use the equity method to account for investment in subsidiaries, joint ventures and associates in their Separate Financial Statements (SFS). Such option is not given in Ind AS 27, as the equity method is not a measurement basis like cost and fair value but is a manner of consolidation and therefore would lead to inconsistent accounting conceptually".

Student Notes:-



TOPIC 24

INDAS 103 – BUSINESS COMBINATION



Quote: "Knowing is not enough; we must apply.
Wishing is not enough; we must do"

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1. WHAT IS BUSINESS COMBINATION

A business combination is a transaction in which the **acquirer obtains control of another business** (the acquiree).

Business generally means major Assets and Liabilities. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. For example acquisition of a "Shell" company is not a business combination.

In a simple language, Business combination covers accounting of Amalgamation of Companies, Consolidation issues, Business Takeovers and Mergers.

Consolidation means: Grouping of Financial Statements of group companies. Group companies means Holding co. (Parent Co.), Subsidiary Co., Associates and Joint Ventures.

What Consist of Business?	BUSINESS consists of inputs and processes applied to those inputs that have the ability to <u>contribute to the creation of outputs</u> . Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business.
Business Means	IndAS 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 (BUSINESS consists of inputs and processes applied to those inputs that have the ability to <u>contribute to the creation of outputs</u> . Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. such as dividends or interest) or generating other income from ordinary activities.
Elements of Business	INDAS 103 also sets that any business must contains three elements: Input: this is a resource (e.g. items of PPE, intangible assets, etc.) that can contribute to creation of outputs; Process: something that you apply to input and as a result, it can contribute to creation of outputs, for example processes, methods, etc.; (Methods means Ideas/Creativity/Decision Making/Good Management) Output: the result of process applied to inputs, for example goods or services provided to customers, and other Incomes.

How to Assess: Business vs. Asset

Under the new definition, **the business does NOT necessarily have to produce outputs.**

Yes, typically it does, but the business can include as a minimum an **input and a substantive process.**

"**Substantive**" is an important word here, because if you do have only inputs and minor process, then it is NOT a business, but asset(s).

In fact, **we need to assess whether the process involved is substantive** - that's perhaps the main focus of the assessment "business vs. asset".

When you assess whether there are inputs and substantive process, first you need to see whether the business has **outputs or not.**

To determine whether acquired process is substantive, following has to be considered:

1) If a set of activities and assets **does not have output at the acquisition date**, an acquired process (or group of processes) shall be considered substantive only if -

- a) It is critical to the ability to develop or convert an acquired input or inputs into outputs; **AND**
- b) The inputs acquired include both "an organised workforce" that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and "other inputs" that the organised workforce could develop or convert into outputs.

Those other inputs could include-

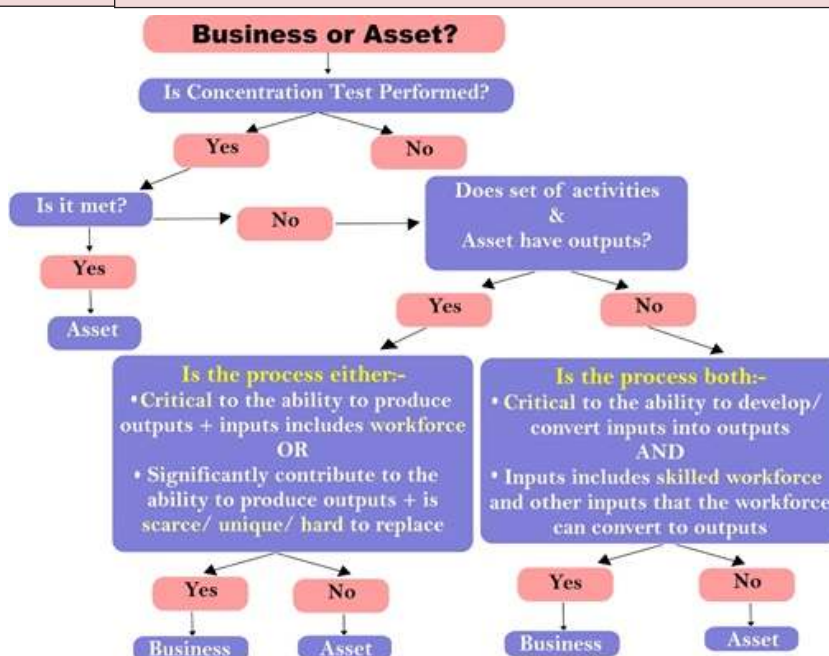
- i) Intellectual property that could be used to develop a good or service;
- ii) there economic resources that could be developed to create outputs; or
- iii) Rights to obtain access to necessary materials or rights that enable the creation of future Outputs.

2) If a set of activities and assets **has outputs at the acquisition date**, an acquired process (or group of processes) shall be considered substantive if, when applied to an acquired input or inputs, it-

- a) Is critical to the ability **to continue producing outputs**, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process (or group of processes); **OR**
- b) Significantly contributes to the ability to continue producing outputs and-
 - i) Is considered unique or scarce; or
 - ii) Can-not be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Let's understand it in a simple manner with the help of some Examples	1) How we calculate Goodwill in a Business Acquisition $PC + NCI - 100\% \text{ Net Identifiable Assets Acquired}$ 2) Why we record Goodwill? Consideration Discharged in more than Identifiable Net Assets acquired. We can say that whatever we have paid more than INA. It is being paid for the process of Business where we can expect Future Economic Benefits. Such Process shall be recognized in the name of Goodwill. (a) <u>Acquired a Running Business</u> Yes, it is Business Acquisition (because it has Input, Subst. Process & Output) (b) <u>Acquired a Manufacturing Unit with Skill Work Force but Operation not yet started.</u> Yes, if Subst. Process acquired even though Output is not available (inputs & Subst. Process) (c) <u>Acquired an under Constructed Factory Building (No workforce is yet appointed)</u> Its an Asset Acquisition
Concentration Test	Instead of assessing whether you have inputs, substantive process and all other features of business, INDAS 103 introduced new simplification option for you: Yes it is Optional not mandatory. The principal question in this test is: Is substantially all of the fair value of the GROSS assets concentrated in a single identifiable asset or group of similar identifiable assets? • If YES, then it is NOT a business. Work done. • If NOT, then you can't really make a conclusion and have no choice but assess inputs, processes, outputs and other features of business as I shortly described above. Following conditions should be present to meet concentration test: • Assess GROSS assets, not net assets. The reason is that liabilities (like loans, payables) are not really relevant to assessing whether you are acquiring a business or not. • Ignore cash and cash equivalents, deferred taxes and goodwill. • In the calculation of FV of gross assets, include any consideration transferred (plus FV of NCI and previously held interest) IN EXCESS of FV of net assets acquired. • Similar assets have similar risk characteristics. Consider their nature and risks. • Assets that are NOT similar are: tangible/intangible; different

	classes of tangible assets; different classes of intangibles; financial/non-financial; different classes of financial assets, assets with different risk characteristics. If the assets are attached and cannot be separated without significant cost, then they are considered a single asset. There are three Step process for concentration test: a) Measure the Fair Value of Gross Assets acquired. b) Identify the single identifiable assets or group of similar identifiable asset. Determine if substantially all of the value determined in point (a) is concentrated in the value determined in point (b) then it is an asset acquisition otherwise needs to assess business definition as per Ind AS 103.
How to Calculate Fair Value of Gross Assets?	Alternative I: Fair value of gross assets shall be determined as follows (i + ii - iii): I) Fair value of consideration transferred (including fair value of non-controlling interest and fair value of previously interest held) ii) Fair value of liabilities assumed (excluding DTL). iii) Cash and cash equivalent and deferred tax assets and goodwill resulting from DTL. Alternative II: (i + ii) I) Add up the gross assets like all tangible assets, intangible assets, current assets, investments etc II) FV of Consideration Paid by Aquirer as deducted by FV of net Assets acquired



Example: - 1

PC = 100 Cr.

Acquired Business of other entity having Net Assets as Under

Land & Building = 95 Cr.

Vehicle / Furniture / Debtors = 4 Cr.

Solution:

$$95 / 100 \times 100 = 95\%$$

PC is Substantially Concentrated towards Land Only i.e., More than 90%

Concentration test is passed

Concentration Test: How to Check?

Value of Single Asset* / Gross Value of Assets $\times 100$

If 90% or More, then treat test is passed

*Either Single Asset (or) Similar Asset (or) Grp of Assets (Dependent)

Example: 2

PC given 120 Cr.

Net Assets Acquired includes: -

Land = 95 Cr

Other Assets = 5 Cr

Cash & Bank Balance = 20 Cr

Net PC = 100 Cr

Gross Asset:

Purchase Consideration Discharges (Outflow)

+ NCI (Outflow)

+ Liabilities assumed (Outflow)

- Cash & Cash Equivalent (Inflow)

- DTA (Inflow)

= **Gross Assets**

Cost of Control:

Investment (PC)

+ FV of Previous Investment

+ NCI

(-) Net Asset

= **Goodwill**

PC + NCI = Net Asset

PC + NCI = Asset - Liabilities

PC + NCI + Liabilities = Assets

$PC + NCI + Liabilities = \text{Cash / Bank, DTA \& Other All Assets}$

$PC + NCI + Liabilities - \text{Cash / Bank} - \text{DTA} = \text{Other Assets}$

$PC + NCI = \text{Net Assets} + \text{Goodwill}$

$PC + NCI + Liabilities = \text{Assets} + \text{Goodwill}$

$PC + NCI + Liabilities - \text{Cash / Bank} - \text{DTA} = \text{Assets excluding Cash / Bank \& DTA} + \text{Goodwill}$

Example: - 3

Purchase Consideration = 5,00,000

+ NCI = 0

+ Liabilities = 44,00,000

- Cash / Bank = (1,00,000)

- DTA = (1,50,000)

Gross Assets = 46,50,000

Single Main Asset (Building) = 31,00,000

Concentration Test = $31,00,000 / 46,50,000 \times 100 = 66.67\%$

Test Fails

Example: 4

Entity A holds 20% interest in Entity B. Subsequently Entity A, further acquires 50% share in Entity B by paying 300 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

Fair value of Entity B is 400 Crores and Fair value of NCI is 120 Crores ($400 \times 30\%$)

Fair value of Entity A's previously held interest is 80 Crores ($400 \times 20\%$)

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

- i) Fair value of consideration transferred (including fair value of non-controlling interest and fair value of previously interest held) = $300 + 120 + 80 = 500$ Crores
- ii) Fair value of liability assumed (excluding deferred tax) = 800 crores
- iii) Cash and cash equivalent = (200) crores.

Fair value of gross assets acquired 1100 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.

Example 5

Myntra, large clothing company, wants to expand to the new location. During its research it discovers an old factory with infrastructure owned by the local company. Current owner discontinued the production recently. Currently, there are only a few people working in the factory on the closing works. Myntra decides to buy the factory, but the owner agrees to sell it only with all its liabilities and assets in entirety.

The Balance Sheet of the factory is as follows:

Particulars	Amount
ASSETS:	
<u>Non Current Assets</u>	
Factory Premise	30,00,000
Plant and Machinery	12,00,000
DTA	1,50,000
<u>Current Assets:</u>	
Inventories	2,50,000
Cash and Cash Equivalents	1,00,000
Total Assets	47,00,000
EQUITY & LIABILITIES:	
<u>Equity</u>	
Share Capital	2,00,000
Other Equity	1,00,000
<u>Current Liabilities</u>	44,00,000
Total Equity & Liabilities	47,00,000

Fair value of the factory building is Rs. 31,00,000. All other assets in factory's balance sheet are stated at fair values. Myntra pays Rs. 5,00,000 for the factory in its entirety. Assess whether Myntra acquired a business or not.

Solution

Perform a concentration test first.

We need to calculate fair value of gross assets.

There are two ways of calculating it:

1. Add up gross assets (and excess of consideration paid over FV of net assets):

- FV of a building: 31,00,000 plus
- FV of P&M: 12,00,000; plus
- FV of inventories of 2,50,000; plus
- FV of + consideration paid: 5,00,000; less FV of Net Assets acquired Rs. 3,00,000 (being the equity) plus Rs. 1,00,000 (being FV of building of 31,00,000 less book value of building of 30,00,000) i.e. Rs. 4,00,000
- **Total: Rs. 46,50,000**

Remember - you ignore cash and deferred taxes (and goodwill, but there is none).

2. Adjusting liabilities and consideration paid:

- Consideration paid: Rs. 5,00,000; PLUS
- FV of liabilities: Rs. 44,00,000; LESS
- Cash acquired: Rs. 1,00,000; LESS
- Deferred tax asset acquired: Rs. 1,50,000
- **Total: Rs. 46,50,000**

OK, so the fair value of gross assets acquired is Rs. 46,50,000; and it is mainly concentrated in building and P&M. However factory building and P&M are NOT similar assets, because they represent different classes of property, plant and equipment.

The question is whether the P&M can be removed from the factory without significant cost. If not, then the factory and its equipment would be considered a single asset for the purpose of this test and the concentration test would be met.

Let's assume this is not the case.

As a result, the concentration test is NOT met, the fair value is NOT concentrated in a single asset (or group of similar assets) and as a result, Myntra must assess inputs, processes and outputs in order to conclude whether the acquired activities and property are a business or not.

First of all, does the set of activities and assets have output?

No, it does not, because the factory has been recently closed.

Therefore, if it does not have an output, we need to see whether there is a substantive process present.

There is a workforce (a few employees working on the closing of factory), but there are no other inputs that workforce develops or converts into output.

The workforce there only works on the closure.

Thus Myntra can conclude that it acquired assets, not a business (no consolidation, but the asset acquisition).

2. SCOPE OF INDAS 103

- ✓ Recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- ✓ Recognizes and measures the goodwill acquired in the business combination, or a gain from a bargain purchase;
- ✓ Determines what information to disclose about the business combination.

3. WHAT TO DO NOW WHEN THE TRANSACTIONS OF BUSINESS COMBINATIONS ARISE?

Apply '**ACQUISITION METHOD**'..... This method has 4 steps:

a) Identifying the Acquirer - the entity that obtains the control of another entity (will be discussed under IndAS 110 later)

Note:

In order to ascertain control do not look at the voting rights only. Evaluate other factors also like board control, potential voting rights etc.

Example 6:

Company P Ltd., a manufacturer of textile products, acquires 40,000 equity shares of Company X (a manufacturer of complementary products) out of 1,00,000 shares in issue. As part of the same agreement, the Company P purchases an option to acquire an additional 25,000 shares. The option is exercisable at any time in the next 12 months. The exercise price includes a small premium to the market price at the transaction date.

After the above transaction, the shareholdings of Company X's two other original shareholders are 35,000 and 25,000. Each of these shareholders also has currently exercisable options to acquire 2,000 additional shares. Assess whether control is acquired by Company P.

Solution

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

- the options are currently exercisable and there are no other required conditions before such options can be exercised
- if exercised, these options would increase Company P's ownership to a controlling interest of over 50% before considering other shareholders' potential voting rights (65,000 shares out of a total of 1,25,000 shares)
- although other shareholders also have potential voting rights, if all options are exercised Company P will still own a majority (65,000 shares out of 1,29,000 shares)
- the premium included in the exercise price makes the options out-of-the-money. However, the fact that the premium is small and the options could confer majority ownership indicates that the potential voting rights have economic substance.
- By considering all the above factors, Company P concludes that with the acquisition of the 40,000 shares together with the potential voting rights, it has obtained control of Company X.

b) Determining the Acquisition date - the date on which it **obtains control** of the acquiree

Note:

- (i) 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.
- (ii) On Acquisition date - Consideration, Identifiable Net Assets, Non-Controlling Interest & Goodwill/Gain on bargain purchase is to be measured or determined.
- (iii) If any approval of regulating authority is required for business combination then the date of obtaining approval may be considered as DOA.

Example 7:

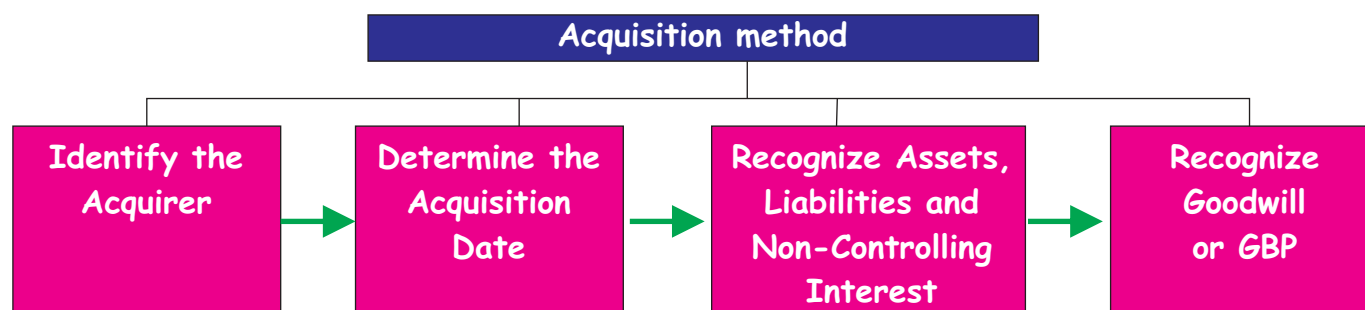
Company A acquired 80% equity interest in Company B for cash consideration. The relevant dates are as under:

✓ Date of shareholder agreement	1st April, 20X1
✓ Appointed date as per shareholder agreement	1st June, 20X1
✓ Date of obtaining control over the board representation	1st July, 20X1
✓ Date of payment of consideration	15th July, 20X1
✓ Date of transfer of shares to Company A	1st August, 20X1

In this case, as the control over financial and operating policies are acquired through obtaining board representation on 1st July, 20X1, it is this date that is considered as the acquisition date. It may be noted that the appointed date as per the agreement is not considered as the acquisition date, as the Company A did not have control over Company B as at that date.

c) Recognizing and Measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

d) Recognizing and Measuring Goodwill or a Gain from a Bargain Purchase.



SUMMARIZING THE ABOVE BASICS:

WE NEED FOUR ELEMENTS FOR SOLVING QUESTION

Consideration (PC) or Investment made by Parent co. only on DOA	Fair Value of 100% Net Assets as on DOA & Again 100% Net Assets as on Consolidation Date for preparing BS	Value of NCI as on DOA & Again NCI is to be recalculated as on Consolidation Date for preparing BS	Value of Goodwill or Gain from Bargain Purchase only on DOA
I. Cash: i. immediate ~~100~~ ii. Deferred II. Other than Cash (Eg. Debentures, other securities) III. Contingent Consideration IV. Step Acquisition <i>Handwritten: 30% + 40% = 70% (circled), 1/1, 1/4, 8/24 (circled)</i>	Here Net Assets Means - (a) Equity Capital (b) Balance of Other equity as on DOA Other equity means Profits accumulated by any name.	NCI can be calculated by any of the following two approaches- (a) Fair Value Or (b) Proportion of Net Assets Qualifying NCI either at FV or Prop. Of Net Assets Non-qualifying NCI at FV	Goodwill/GBP will be Different when Non-Controlling interest valued at: a) Net Asset: Proportionate Goodwill b) Fair Value: Full Goodwill (preferred) Goodwill is subject to Impairment under Ind AS 36, but not amortization.

4. WHAT IS PURCHASE CONSIDERATION UNDER BUSINESS COMBINATION?

Fair Value of <u>Assets given</u> on acquisition date	-	XXX
Fair Value of <u>Liabilities incurred</u> by acquirer	-	XXX
Fair Value of <u>equity shares issued</u> by acquirer	-	XXX
Fair Value of <u>Deferred Consideration</u> (at PV)	-	XXX [see note (i) below]
Fair Value of <u>Contingent Consideration</u> (at PV)	-	XXX

(i) Difference between the actual consideration to be paid and the Fair value of Consideration recognized on acquisition date or any change after 1st recognition will be transferred to Profit and Loss as Finance Cost every year.

(ii) **Acquisition related costs** incurred by an acquirer to effect a business combination are not part of the consideration transferred, for example -

- (a) **STAMP DUTY** payment on acquisition of Land pursuant to business combination shall not be capitalized and treated as acquisition related cost - to be expensed off.
- (b) Any Payment to the **regulator** of acquiree to run license.

Author's Note -

- Any Transaction cost incurred on Business Combination shall be directly transferred to Profit and Loss account.
- If Contingent Consideration is based on Employment Service then it is not to be a Part of PC and fully treated as Post Business Combination Expense in Profit and Loss Statement of Acquirer if Paid.

Example 8:

B Ltd. has 1,00,000 no. of equity shares outstanding

A Ltd. acquired 72,000 equity shares of B Ltd. (FV per share of B Ltd. is 36/-)

Consideration would be discharged in the form of cash of Rs. 5,00,000 immediately & 1 Equity Share of A Ltd. for Every 2 shares acquired (FV per share of A = 60/-)

In addition to above, A Ltd. will pay 6,00,000/- in cash after 1 year (Cost of Capital is 10%)

Calculate Purchase Consideration as on Date of Acquisition

Solution:
Calculation of Purchase Consideration: -

Consideration in form of	Amt
1) Equity shares of A Ltd (72,000/2 x 1) x 60/-	21,60,000 ✓
2) Cash Immediate	5,00,000 ✓
3) Deferred Cash at PV 6,00,000/1.1	5,45,455 ✓
Purchase Consideration	32,05,455

FV of NCI of B Ltd:

$$(1,00,000 - 72,000) \times 36 = 10,08,000$$

SFS of A Ltd: (Journal Entry for Acq)

DOA = Investment in B Ltd	Dr.	32,05,455
To Bank A/c		5,00,000
To ESC / SP A/c		21,60,000
To Def. Cash Payable A/c		5,45,455

After 1 Year:

$$(5,45,455 \times 10\%) = 54,545/-$$

a) Interest Cost A/c*	Dr.	54,545
To Def. Cash Payable A/c		54,545
b) Def. Cash Payable A/c	Dr.	6,00,000
To Bank A/c		6,00,000

*Not a part of Investment charges to P&L of Acquirer.

5. NON-CONTROLLING INTEREST

Meaning - The Equity in a Subsidiary

- (a) Not Attributable directly or indirectly
- (b) To a Parent

i.e. when parent owns less than 100% of the equity of acquiree.

Presentation of NCI - Separately in the CFS of parent.

Measurement of NCI - IndAS 103 requires measuring NCI as per the following methods:

Method - 1

Fair value of shares held by NCI also known as Full Goodwill method

A Limited acquires 80% shares of B Limited whose NA are Rs 140.00 crores by payment in cash of Rs 120.00 crores. The value of non-controlling interest is Rs 30 crores.

$$\text{NCI} = 120 / 80\% \times 20\% = 30 \text{ Cr.}$$

Method - 2

'Proportionate Share in Net Assets method' also known as Partial Goodwill

Continuing with the above example in method 1 -

Assume that the value of recognized amount of subsidiary identifiable net assets is Rs 140.00 crores, as determined in accordance with Ind AS 103. The value of non-controlling interest is Rs 28.00 crores (i.e. Rs 140 crores x 20%).

Types of NCI -

Meaning	<u>Qualifying NCI</u> Present ownership interest and entitles its holders to a proportionate share in the Net Assets	<u>Non-Qualifying NCI</u> All other components of NCI
Examples	Ordinary Equity Shares Preference Shares entitled to a pro-rata share of net asset upon liquidation	Equity component of convertible debt and other compound financial instruments Share warrants Options under Share based payments
Measurement of NCI	Option 1 - At the Fair Value of the NCI Option 2 - Proportionate share of Net Assets acquired	At Fair Value only unless another measurement basis is required by Ind-AS. Eg. SBP options of NCI are measured as per IndAS 102

Qualifying NCI (Important Note):

- When FV per share of acquiree is given in the question then use FV Method.
- When question requires NCI to be measured at FV - then FV of NCI shall be computed based on the price per share paid by parent (acquirer) for acquiring the control at DOA
- When FV is not given or question doesn't requires to calculate as per FV - then use Proportionate share of Net Assets acquired.

Negative NCI - NCI can be negative also when Net Assets acquired are negative (i.e. Assets are less and Liabilities are more)

$$\frac{120}{80\%} \times 20\%$$

6. CALCULATION OF GOODWILL OR GAIN ON BARGAIN PURCHASE

(A) Goodwill or Gain from Bargain Purchase shall be calculated as under:

Cost of Investments (FV of Consideration transferred)	XXXX
Add: Fair Value of Previous Equity Interest (in case of Multiple Acquisition)	XXXX
Add: Non-Controlling Interest as per above two methods	XXXX
Less: Identifiable Net Assets of acquiree at Fair Value on DOA	XXXX
Goodwill or Gain from Bargain Purchase	XXXX

Gain on Bargain Purchase - Ind AS 103 requires that the bargain purchase gain should be recognised in OCI and accumulated in equity as capital reserve. If there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, then it should be recognised directly in equity as capital reserve.

Goodwill shall be presented in Consolidated Balance Sheet separately from Other Intangible Assets.

Carve Out -

IFRS 3 requires the entity to recognize Gain on Bargain Purchase to Profit or Loss A/c and not through OCI.

So basically from the above understanding of Consideration, NCI and goodwill we can conclude that, for consolidation of FS we need following elements:

- Identifiable Net Assets
- NCI
- FV of Consideration transferred to acquire Control
- Goodwill or Capital Reserve (Gain on bargain purchase)

(B) **How to solve the question when acquisition of control (DOA) is made during the year and balances of other equity (for the purpose of calculating Net Assets as on DOA) are not given on the same date?**

Assume Profits (Other Equity) are accrued evenly throughout the year except when there are -

- (a) Abnormal Items
(b) Non-Recurring Items

And Prepare "Statement of Changes in Net Assets" (SCNA)

	Particulars	Net Assets as on DOA	Changes during the period	Total Balance as on CFS date
	Balance of Share Capital			
+	Balance of other equity (profits)			
+/-	Abnormal Items; Non recurring items or Errors		XXX	
+	Dividend paid during the year or Dividend of CY declared in CY & Entry passed.		XXX	
=	Balances			
+/-	Time Adjustment (assume evenly accrued) **Time adjustment is done on Profit after Tax before any distributions eg. dividend			
=	Balances after Time Adjustment			
+/-	Restate Abnormal Items			
-	Pref. Dividend			
+/-	Revaluation of Assets /Liabilities along with Depreciation if any			
+/-	DTA/DTL on above revaluation			
-	Elimination of Unrealized Profit & DTA thereof			
	Final Balance			

- Take Net Assets as on DOA as 100% for the purpose of calculating Goodwill/GBP
- Apportion the Change column between Parent's Share and NCI's Share

Example 9: - (Net Asset FV)

Balance Sheet of Acquiree as on 31/3/23

Particular	Amt
PPE	80,00,000
Current Asset	30,00,000
	1,10,00,000
Equity share capital	40,00,000
Other Equity (Res) → B/s	35,00,000
Liabilities	35,00,000
	1,74,50,000

$$\begin{aligned}
 EK &= 40. \\
 + Res &= 35. \\
 + R.R &= 10. \\
 \hline
 NA &= 85 \\
 &- 3 \\
 \hline
 &= 82
 \end{aligned}$$

Date of Acquisition is 31/3/23. Tax Rate is 30%

FV of PPE on DOA is 90 lakhs CA in CFS

Calculate FV of Net Assets

Solution:

Approach 1 -

Particular	Amt
PPE	90,00,000 ✓
+ Current Asset	30,00,000 ✓
(-) Liabilities	(35,00,000) ✓
(-) DTL on Business Combination	3,00,000 ✓
FV of Net Assets	82,00,000

Approach 2 -

Statement of Net Assets/Equity: -

Particular	Amt
Equity Share Capital	40,00,000 ✓
Other Equity	35,00,000 ✓
+ Revaluation Gain	10,00,000 ✓
(-) Revaluation Surplus due to DTL	(3,00,000) ✓
FV of Net Assets	82,00,000

$$\begin{aligned}
 DTL &= 1000000 \times 30\% \\
 &= 300000 \\
 &= 3 \text{ lacs}
 \end{aligned}$$

NA 82

3 lacs

EXAMPLE 10: -

Balance Sheet of A Ltd. & B Ltd. as on 31/3/23

	A	B	CFS
Equity share capital of Rs. 10 Each	50,00,000	30,00,000	50
Other Equity	30,00,000	25,00,000	30
Liabilities	40,00,000	20,00,000	60
	1,20,00,000	75,00,000	140
Investment in B Ltd. (100%)	60,00,000	-	0
All Other Assets	60,00,000	75,00,000	140
	1,20,00,000	75,00,000	140

Date of Acquisition is 31/3/23

Fair Value of Assets of B on 31/3/23 is 80 Lakhs. Show Business Combination A/c & Prepare CFS.

Solution

- 1) NCI is Nil
- 2) Date of Acquisition is 31/3/23
 - (a) Purchase consideration (investment made by Acquirer) = 60,00,000
 - (b) Fair Value of Net Assets

Assets	80,00,000
(-) Liabilities	20,00,000
Fair Value of Net Assets	60,00,000

(c) NCI = 0

(d) Goodwill / Gain on Bargain Purchase :-

Purchase Consideration (Investment) 60,00,000

(-) 100% NA Acquired 60,00,000

0

Journal Entry (in CFS of Acquirer i.e., A Ltd.)

Net Assets A/c	Dr. 60,00,000	
To Investment A/c		60,00,000

Consolidated Balance Sheet of GRP as on 31/3/23

Assets (60+80)	1,40,00,000
	1,40,00,000
Equity Share Capital (10/-)	50,00,000
Other Equity	30,00,000

Liabilities (40+20)

60,00,000

1,40,00,000

Example 11: -

Balance Sheet of A Ltd. & B Ltd. as on 31/3/23

	A Acquirer	B Acquiree/Subs.
All Other Assets	90,00,000	75,00,000
Investment in B Ltd. (90%)	50,00,000	-
	1,40,00,000	75,00,000
Equity share capital (10%)	40,00,000	30,00,000
Other Equity	50,00,000	15,00,000
Liabilities	50,00,000	30,00,000
	1,40,00,000	75,00,000

On 31/3/23, A Ltd made investment in B Ltd. BV of NA of B are equal to FV.

Apply INDAS 103 & 110 (MP of Preference Share of B = 16)

Solution

Date of Acquisition = 31/3/23

- 1) PC = 50,00,000
- 2) 100% of Net Assets at FV = 45,00,000
- 3) NCI (outside SH of B Ltd)

(a) Proportionate share in FV of N.A.

$$45,00,000 \times 10\%$$

$$= 4,50,000$$

(b) FV Method

Alternate 1:

$$30,00,000 \times 10\%$$

$$30,000 \text{ No.} \times \text{MP (i.e.,) 16}$$

$$4,80,000$$

If MP is missing but we want to calculate NCI through FV method only, Then

Alternate 2:

$$\text{Investment by A (90\%)} = 50,00,000$$

$$50,00,000 / 90 \times 10$$

$$5,55,555$$

- 4) Goodwill/Gain on Bargain Purchase:

Journal entries in CFS:

Net Assets A/c Dr. 45,00,000

Goodwill A/c Dr. 9,50,000

To NCI A/c	4,50,000
To Investment A/c	50,00,000

Cost of Control (COC)

Investment	50,00,000+
NCI	4,50,000
	54,50,000
(-) 100% Net Assets	45,00,000
Goodwill	9,50,000

Consolidated Balance Sheet

Particular	Amt
Assets (90+75)	1,65,00,000
Goodwill	9,50,000
	1,74,50,000
Equity share capital (10%)	40,00,000
Other Equity	50,00,000
NCI	4,50,000
Liabilities (50+30)	80,00,000
	1,74,50,000

Acquirer:

Equity Share Capital (10%) = 1,00,000/-
 Preference Share Capital Convertible (1:1) = 30,000/-
 Equity + Preference = 13,000 No.

Acquirer:

Acquired 4,000 no. of Equity Shares
 Acquired 100% Convertible Preference Share Capital
 $4000 + 3000 / 13000 \times 100 = 53.85\%$

?

Example 12: -

FY 23-24, Date of Acquisition is 1/9/23

ESC of Acquiree is Rs. 20 lakhs Outstanding for Whole Year

Balance of Other Equity as on 1/4/23 was Rs. 15 Lakhs & as on 31/3/24 was Rs. 27 Lakhs

During the Year there was an abnormal loss of Rs. 54,000 in the month of October.

80% Investment made by Acquirer is Rs. 30 Lakhs

Calculate Goodwill/Gain on Bargain Purchase also share of Acquirer in Post-Acquisition Period Profit.

Solution:

Statement of Changes in Net Assets

Particulars	DOA Position 1/9	Changes after DOA (1/9 - 31/3)	Balance Sheet
Equity Share Capital	20,00,000 ✓	-	20,00,000 ✓
Other Equity	15,00,000 ✓	12,00,000 NP	27,00,000 ✓
+ Abnormal Loss	-	+ 54,000	
	35,00,000	12,54,000	→ Normal profit
+/- Time Adjustment for 5 Months	5,22,500 ✓	(5,22,500) ✓	12,54,000 × 5/12
	40,22,500	7,31,500	
- Abnormal Loss	(54,000)	(54,000)	
	~~40,22,500~~ 39,68,500	~~7,31,500~~ 6,77,500	
	100% Net assets as on 1/9	Parent - 80% = 5,85,200 NCI - 20% = 1,46,300	5,42,000 1,35,500

Cost of Control: -

Investment as on DOA

30,00,000 ✓

+ NCI as on DOA (Proportion of NA)

~~7,39,700~~

~~37,93,700~~

~~39,68,500~~

~~1,74,800~~

~~21,800~~

~~21,800~~

~~21,800~~

~~21,800~~

~~21,800~~

~~21,800~~

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~~21,800~~

~~21,800~~

~~21,800~~

~~21,800~~

~~21,800~~

~~21,800~~

~~21,800~~

804500 (4022500 × 20%)

3804500

4022500

218000 GBP

(-) 100% Net Assets as on DOA

Gain from Bargain Purchase (CR)

7. TREATMENT OF DIVIDEND

- 1) Dividend is Declared generally in AGM in next FY.
- 2) That means if Dividend is paid by Acquiree in CY, it must have been declared in Cy only
- 3) Journal Entry by Acquiree **Sub.**
 - a) Declaration -

P&L A/c	Dr.
To Dividend Payable A/c	
 - b) Payment -

Dividend Payable A/c	Dr.
To Bank A/c	
- 4) If dividend is Paid after DOA, then Acquirer much be eligible for this. However, if Dividend is paid before DOA, Acquirer is not eligible.
- 5) If Acquirer is eligible for Dividend, then it must include it in its P&L A/c
- 6) While making Time Adjustment Calculation in SCNA, Profit must be After Tax & Before any Dividend or Other Appropriate

7) Therefore, if Dividend is Declared/Paid during the year, it **needs to be added back in Changes Column to determined Profit before Dividend.** Let's understand the same below:

- a. Add back in the statement of Net Assets (in change column) just to make proper time adjustment.
- b. Apply Time adjustment
- c. **Deduct** the proportionate dividend directly from parent's P&L and remaining dividend directly from NCI directly

Example 13: -

1/4/23 = other Equity = 6,00,000

1/6/23 = DOA 70% of Investment = 15,00,000

1/8/23 = Dividend Payable = 1,50,000

31/3/23 = Equity Share Capital = 12,00,000 & Other Equity = 9,00,000

70% 105000 P&L of P
30% 45000 NCI

Based on Above information, Following conclusion can be drawn: -

- 1) CY Profit of S is not 3,00,000 (9-6) it is 3,00,000 + 1,50,000 (Dividend) = 4,50,000 & Time Adjustment is to be made for 4,50,000
- 2) Since Dividend is paid after 1/6 (i.e., DOA) Parent must have received Proportionate share in Dividend i.e., 1,05,000/-
- 3) Parent must have already Credited its P&L A/c (other Income) by 1,05,000 in SFS.
- 4) NCI must have also received it on 1/8 as its Proportionate Share i.e., 45,000
- 5) Since DOA is 1/6 which is before Dividend declared & paid i.e., 1/8
Therefore 100% Net Assets position as on DOA must be before Dividend impact.

i.e., Net Assets as on DOA should not reflect Dividend effect

Date Of Acquisition: 1/6/23

Purchase Consideration = 15,00,000

100% Net Assets (SCNA) = 18,75,000

NCI (30% of NA) = 18,75,000 × 30% = 5,62,500

Goodwill / Gain on Bargain Purchase = 1,87,500

SCNA: -

Particulars	DOA Position 1/6	Changes after DOA (1/6 - 31/3)	Balance Sheet
Equity Share Capital	12,00,000	-	12,00,000
Other Equity	6,00,000	3,00,000	9,00,000
+ Dividend Paid	-	1,50,000	
	18,00,000	4,50,000	
+/- Time Adjustment for 2 Months	75,000	(75,000)	
NA as on DOA	18,75,000	3,75,000	
	100% Net assets as on DOA	Parent - 70% = 2,62,500 NCI - 30% = 1,12,500	

NCI (DOA) = 5,62,500
+ share = 1,12,500
(-) share in Div = (45,000) ✓

Working Note: NCI

NCI as on DOA	5,62,500
(+) Post Acquisition Share in Acquiree's Profit	1,12,500
	6,75,000
(-) Paid Dividend	(45,000)
	6,30,000

Working Note: Consolidated Other Equity p ₹ of Parent Company

R&S Balance in SFS <i>offer</i>	xxx ✓
Post-Acquisition Share from acquiree	2,62,500 ✓
(-) Dividend already received	(1,05,000)

Example 14: -

Date of Acquisition: 1/8/23

Investment Cost = 15,00,000 @80%

	1/4/23	31/3/24
Equity Share Capital (Sub.)	8,00,000	8,00,000
Other Equity (Sub.)	9,00,000	12,00,000

Dividend paid by Sub. 90,000 on 1/7/23

Calculate SCNA / NCI / COC / Other Equity.

Solution

1) SCNA

Particulars	DOA Position	Changes after DOA	Balance Sheet
Equity Share Capital	8,00,000	-	8,00,000
Other Equity	9,00,000	3,00,000	12,00,000
+ Dividend Paid	(90,000)	90,000	
	16,10,000	3,90,000	
+/- Time Adjustment	1,30,000	(1,30,000)	
NA as on DOA	17,40,000	2,60,000	
	100% Net assets as on DOA	Parent - 80% = 2,08,000 NCI - 20% = 52,000	

2) NCI: -

NCI (DOA) = 3,48,000
+ Post Acquisition Share = 52,000
= 4,00,000

3) Cost of Control: -

Investment	15,00,000
+ NCI	3,48,000
(-) 100% Net Assets	(17,40,000)
Goodwill	1,08,000

4) Consolidated Other Equity: -

Parent/Balance	xxx
+ Post Acquisition Share	2,08,000
	2,08,000

**** No Dividend Reduction on Parent has not received it.**

Example 15: -

Treatment of Preference Share Capital & Preference Dividend in Subsidiaries)

Balance Sheet as on 31/3/24

	P	E
Equity share capital	15,00,000	9,00,000
9% Preference Share Capital	6,00,000	5,00,000
Other Equity	10,00,000	8,00,000
Liabilities	9,00,000	8,00,000
	40,00,000	30,00,000
PPE	14,00,000	20,00,000
Investments:		
In Equity Shares (60%)	8,00,000	
In Preference Shares (30%)	2,00,000	
All Other Assets	16,00,000	10,00,000
	40,00,000	30,00,000

- Both Investment were acquired on 1/4/23
 - Preference Dividend is declared by Subsidiary on 31/3/24. But no entry is yet passed by both.
 - Equity dividend is paid on subsidiary on 1/10 @12%
 - Balance of other equity of subsidiary as on 1/4/23 = 5,00,000
- Show important workings & Prepare CBS.

Solution:
Working Note 1: SCNA

Particulars	DOA Position 1/4/23	Changes after DOA 12 Months	Balance Sheet 31/3/24
Equity Share Capital	9,00,000	-	9,00,000
Other Equity	5,00,000	3,00,000	8,00,000
+ Equity Dividend Paid	-	1,08,000	
+ Preference Dividend Paid (No need to adddback as entry not passed)	-	-	
(-) Preference Dividend	-	(45,000)	
(-) Preference Dividend	14,00,000	4,08,000	
	14,00,000	3,63,000	
	100% Net assets as on DOA	Parent - 60% = 2,17,800 NCI - 40% = 1,45,200	

Working Note 2: - (NCI including Preference Share Capital)

NCI (40% of Net Assets as on DOA)	5,60,000
+ Proportionate 70% Preference Share Capital	3,50,000
NCI as on DOA	9,10,000
+ Share in Post-Acquisition Profit	1,45,200
(-) Dividend Equity Received (1,08,000 x 40%)	(43,200)
TOTAL NCI	1,12,000

****Excluding Preference Share Dividend, It should be separately shown in CBS "Other Current Liabilities".**

Working Note 3: - Cost of Control Investment

Equity 60%	10,00,000
Preference 30%	9,10,000
	19,10,000
(-) 100% Net Assets: 14,00,000	
100% Pref. Share Capital: 5,00,000	(19,00,000)
Goodwill	10,000

Working Note 4: - Other Equity Balance

Balance with Parent in SFS	10,00,000
+ Post Acquisition Share in Subsidiary Profit	2,17,800
- Dividend Equity	(64,800)

+ Preference Dividend Income 30%	11,53,000
	13,500
	11,66,500

Consolidated Balance Sheet

PPE	34,00,000
Goodwill	10,000
Other Current Asset	26,00,000
	60,10,000
Equity Share Capital	15,00,000
9% Preference Share Capital	6,00,000
Other Equity	11,66,500
NCI	10,12,000
Liabilities	17,00,000
Net Dividend Payable (Preference)	31,500
	60,10,000

Example 16 -

From the above example 15, but the Date of Acquisition is 1/10

Solution:

Working Note 1: SCNA

Particulars	DOA Position 1/4/23	Changes after DOA 12 Months	Balance Sheet 31/3/24
Equity Share Capital	9,00,000	-	9,00,000
Other Equity	5,00,000	3,00,000	8,00,000
+ Equity Dividend Paid	-	1,08,000	
+ Preference Dividend Paid (No need to addback as entry not passed)	-	-	
	14,00,000	4,08,000	
(+/-) Time Adjustment for 6 Months	2,04,000	(2,04,000)	
	16,04,000	2,04,000	
(-) Preference Dividend	(22,500)	(22,500)	
	15,81,500	1,81,500	
	100% Net assets as on DOA	Parent - 60% = 1,08,900 NCI - 40% = 72,600	

Working Note 2: NCI including Preference Share Capital

NCI (40% of Net Assets as on DOA)	6,32,600
+ Proportionate 70% Preference Share Capital	3,50,000
NCI as on DOA	9,82,600
+ Share in Post-Acquisition Profit	72,600
(-) Dividend Equity Received (1,08,000 x 40%)	(43,200)
	10,12,000

Working Note 3: Cost of Control

Investment in both	10,00,000
+ NCI as on DOA	9,82,600
	19,82,600
(-) 100% Net Assets:	(20,81,500)
Equity Share Capital : 15,81,500	
100% Pref. Share Capital: 5,00,000	
CAPITAL RESERVE	98,900

Working Note 4: Other Equity Balance

Balance with Parent in SFS	10,00,000
+ Post Acquisition Share in Subsidiary Profit	1,08,900
- Dividend Equity	(64,800)
+ Preference Dividend Income 30%	13,500
	10,57,600

Consolidated Balance Sheet

PPE	34,00,000
Other Current Asset	26,00,000
	60,00,000
Equity Share Capital	15,00,000
9% Preference Share Capital	6,00,000
Other Equity: 10,57,600	11,56,500
CR: 98,900	
NCI	10,12,000
Liabilities: 17,00,000	17,31,500
31,500*	
	60,00,000

*Payable to NCI (Preference Dividend)

8. FAIR VALUE OF IDENTIFIABLE NET ASSETS (REVALUATION)

Concept-

Identifiable Net Assets are always considered at Fair Value as on Date of Acquisition to calculate correct Goodwill or GBP, Since Purchase Consideration is by default at Fair Value (obviously if purchased from market then PC would be at Fair Value), therefore Net Assets should be taken at Fair Value for proper comparison.

Following Steps should be kept in mind if Separate Fair Values of Net Assets are given in the question:

1. Calculate **Revaluation Profit/loss** on the date of acquisition along with its Tax effect (i.e. DTL/DTA) - This shall be adjusted in the Net Asset as on acquisition date under "statement of Net Assets" in Pre-acquisition column.
2. Calculate **Additional Depreciation/Saving in Depreciation** due to revaluation of NA, and it shall be adjusted in the post-acquisition net assets along with its tax effect (i.e DTA/DTL)

How to Calculate Depreciation Effect on Revaluation of Assets:

Depreciation that should be charged on Fair Value of PPE as on DOA till Date of Consolidation	XXX
Less - Actual Depreciation charged in Books from DOA to Date of Consolidation	XXX
Balancing Figure would be Additional Dep or Saving in Dep.	XXX

3. In case of revaluation of Current Assets (like inventory or debtors) - if such CA are settled or realised during post-acquisition period, then above revaluation effect shall be reversed in the post-acquisition period of statement of NA along with Tax effect.

If such CA are still o/s on balance sheet date (i.e not realised/settled yet) then no need to reverse the effect.

(In absence of any information, we will assume that Current Assets are still o/s on BS date)

Example 17: - (Fair Valuation of PPE)

Balance Sheet of Acquiree as on 31/3/24

PPE (After <u>10%</u> Depreciation)	13,50,000
Current Asset	7,50,000
	21,00,000
Equity Share Capital (10/-)	12,00,000
Other Equity	3,00,000
Liabilities	6,00,000
	21,00,000

90% Investment Acquired by Acquirer on 1/7/23 at Cost of 12,58,000

Other Equity Balance of Acquiree as on Beginning of Year is 90,000. Tax Rate 25%. Market Value of PPE on 1/7/23 is 16,00,000

Solution:
Working Note - 1:

- PPE as on 31/3 (BV) = 13,50,000
- PPE as on 1/4 (BV) (10% Depreciation) = 15,00,000
- PPE as on 1/7 (BV) (10% Dep for 3 Months) = 14,62,500
- PPE as on 1/7 (MV) = 16,00,000
- Fair Value Gain (MV - BV) (d-c) = 1,37,500

Tax Effect:

Current Asset as per CFS (on DOA) = 16,00,000

Tax Base (Value as per Acquiree's Record) = 14,62,500

DTL @25% = 34,375 (to be Created on DOA due to Business Combination it will ultimately affect Goodwill/GBP)

Working Note - 2:

Depreciation for Post Acquisition Period (i.e., 1/7 to 31/3)

- Depreciation Charged by Acquiree for Post Acquisition Period (14,62,500 - 13,50,000) = 1,12,500
- Depreciation that should be charges in CFS for Post Acquisition period on 16,00,000 (16,00,000 × 10% × 9/12) = 1,20,000
- Excess Depreciation to be charges in CFS = 7,500

	DOA	Balance Sheet
Date Current Asset (CFS)	16,00,000	14,80,000
Tax Base	14,62,500	13,50,000
	1,37,500	1,30,000
O/D DTL (1,37,500 × 25%)	34,375	
Revised DTL (1,30,000 × 25%)		32,500

Reversal of DTL = 1,875

Working Note 3: Statement of Changes in Net Asset

Particulars	DOA Position 1/7	Changes after DOA (1/7 - 31/3)	Balance Sheet
Equity Share Capital	12,00,000	-	12,00,000
Other Equity	90,00,000	2,10,000	3,00,000
(+/-) Time Adjustment for 3 Months	52,500	52,500	
NA as in DOA	13,42,500	1,57,500	
(+/-) Fair Value Adjustment	1,37,500	(7,500)	
(+/-) DT Adjustment (liab.)	(34,375)	1,875	
NA as on DOA	14,45,625	1,51,875	
	100% Net assets as on 1/9	Parent - 90% = 1,36,687 NCI - 10% = 15,187	

Working Note 4: - Cost of Control

Investment @90%	12,58,000
+ NCI as on DOA	1,44,563
(-) 100% Net Assets	(14,45,625)
Gain on Bargain Purchase	43,062

Working Note 5: - NCI

As per Net Asset Proportion	1,44,563
+ Post Acquisition of Shares	15,187
	1,59,750

Working Note 6: Consolidated Other Equity

	R&S	CR
Balance of Parent	xxx	xxx
+ Shares from Acquiree	1,36,687	-
+ GBP	-	43,062
	1,36,687	43,062

Consolidated Balance Sheet (Extract)

PPE		14,80,000
P	xxx	
S	13,50,000	
+ FV Gain on DOA	1,37,500	
- Additional Depreciation	(7,500)	
Current Asset		7,50,000
P xxx		
S 7,50,000		
Equity Share Capital of Parent		xxx
Consolidated Other Equity		1,79,749
NCI		1,59,750
Liabilities		6,00,000
P xxx		
S 6,00,000		

Student Note:

9. STEP ACQUISITIONS

- Step Acquisition means acquiring equity interest in subsidiary at various different dates let's say acquired first time in the year 2019 @ 20% then acquired another 40% in the year 2020. In this case, CONTROL is meant to be acquired in the year 2020.
- If it results in acquisition of Control, then Consolidation of FS is must.
- Consolidation begins only from the date of obtaining control.
- Investments held before obtaining control must be revalued (at Fair value) through P&L a/c.
- **How to Calculate FV of Previous Investments?**
 - First Preference - FV will be provided in the question
 - Second Preference - Compute FV based on Price per share paid by Parent in its latest acquisition (i.e. on DOA of Control)
- Goodwill/Gain on Bargain Purchase shall be calculated **only on the date of obtaining control.**

We can understand the entire process through following Journal Entries:

1. Revalue previously recognized investment at fair value:

Investments A/c Dr.	or	P&L A/c Dr.
To P&L A/c		To Investment A/c

2. Now Consolidate the subsidiary:

Net Assets (100%) (value as per IndAS 103)	Dr.	Fair Value
Goodwill	Dr.	Calculated as above
To Non-Controlling Interest		Calculated as per INDAS103
To Bank		Consideration
To Investment** (previously recognized)		Fair Value

** Previous investment may be Investment in Associate before obtaining control.

Calculation of Goodwill/CR:-

Cost of Investment (further investment when control obtained)	---	xxx
+ Fair value of previous equity interest	---	xxx
+ Non-Controlling Interest as per above two methods	---	xxx
Identifiable Net Assets (FV) of subsidiary on acquisition date	---	xxx

Investment in Associate Converted into Investment in Subsidiary

1) Initially we had an investment in associate

In CFS we must have applied Equity Method on Such Investment

Equity Method:

Cost on Investment	XXX
+ Share in Post-Acquisition P&L	XXX
+ Share in Post-Acquisition OCI	XXX
+ Share in Post-Acquisition Other Equity	XXX
(-) Dividend Received	(XXX)
Value of Investment (In CFS)	XXXXXX

Journal Entries:

Investment A/c	Dr.
To Consolidated P&L A/c	
To Consolidated OCI A/c	

2) Subsequently when Associate is Converted into Subsidiary due to Further Investments.

Equity Method is discontinued and follow INDAS 103

Follow Step Acquisition Method and Measure previous Investment in Associates at FV as on DOA. Any Accumulated Balances in OCI shall be treated as Follows:

- (a) Balance of OCI to the extent allowed as reclassified shall be transferred to Consolidated P&L A/c
- (b) Balance of OCI to the Extent not allowed to be reclassified - shall be directly transfer to reserve in CFS.

Journal Entry as per INDAS 103:

Net Asset A/c	Dr.
Consolidated OCI A/c	Dr.
Goodwill A/c	Dr.
To Bank A/c	
To Investment A/c	
To Consolidated P&L A/c	
To Reserves A/c	
To Consolidated P&L A/c (FV Gain)	

Example 18: -

Invested 15% in Equity of B Ltd on 1/4/22 @ 5,00,000/-

Total Equity Shares outstanding of B Ltd. is 1,00,000 No.

Invested another 45% in equity of B Ltd on 1/4/23 @ 25,00,000/-

Market Value of Share of B Ltd. on 1/4/23 is 50/-

100% Net Assets Fair Value of B Ltd.

1/4/22 = 50,00,000

1/4/23 = 60,00,000 (100%)

NCI Should be at Fair Value

Calculate COC & also discuss treatment of 15% Investment in CFS.

(Parent Follows Cost model under INDAS 27)

Solution:

Date of Acquisition = 1/4/23

Cost of Control:

Investment (PC)	
1/4/23 - 45 % Equity	25,00,000
1/4/22 - 15% Equity (15,000 x 50)	7,50,000
	32,50,000
+ NCI as on DOA (40,000 x 50/-)	20,00,000
(-) 100% Net Assets	(60,00,000)
Gain on Bargain Purchase	7,50,000

While calculating GBP as above, we have remeasured 15% Investment @7,50,000 (i.e., FV Gain of 2,50,000). Its second effect should be credited to P&L of parent & to be reflected in Consolidated Other Equity of Grp.

10. UNREALISED PROFIT/LOSS ON ASSETS/STOCKS TRANSFERRED WITHIN THE GROUP:

First of all identify the date of Intra Group transaction, if transaction date is before acquisition of investment then ignore such transaction. If transaction is made on or after the date of acquisition of control, then follow the below steps:

1. Effect on Consolidated Balance Sheet:

- Calculate Book value of asset/stock transferred within the group (net of depreciation if any)
- Calculate un-realised profit/loss on above book value.
- If such transaction is upstream (i.e. sale by suby to parent) then eliminate profit/loss in statement of Changes in NA in Post-acquisition column with similar effect in Asset/Stock value.
- If such transaction is downstream (i.e. sale by parent to suby) then eliminate the profit/loss from Consolidated Retained Earnings of Parent with similar effect in Asset/Stock value)

**** If the Loss is irrecoverable (Permanent decline in FV/NRV) then Ignore (no reversal)**

2. Effect on Consolidated Profit and Loss Statement:

While combining the incomes and expenses of parent and subsidiary co., make contra adjustment of intra grp transactions made after date of acquisition.

Under Change in Inventory Head - separately calculate the value of inventory of subsidiary as follows:

Opening Inventory as on acquisition date (at Fair Value)	- xxxx
Less Closing Inventory as on Cons. Date after elimination of UP	-xxxx

Change in Inventory during the post-acquisition period	xxxx

Note: DTA/DTL should also be reflected in the above calculations. DTA shall be recognized in case of elimination of Profit.

11. SUMMARY:

Ok! Let us summarize the entire concepts studied till now with some additional points

A) RECOGNITION -

- **On acquisition date**, recognize all identifiable Assets acquired and Liabilities assumed if they meet the definition of assets and liabilities as per Framework.
- **Those Assets & Liabilities which are not recorded by acquiree in its financial statements - shall also be recorded if they meet the recognition criteria** as per acquirer. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a brand name, a patent or a customer relationship, that the acquiree did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.
- **Recognition of Contingent Liabilities** - the acquirer shall recognize 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 even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Outcome	INDAS 37	Business Combination
Possible obligation	Not recognized	Not recognized
Present obligation - not probable that an outflow of economic benefits will occur	Not recognized	Recognized if reliably Measured
Present obligation - probable that an outflow of economic benefits will occur, but cannot be measured reliably	Not recognized	Not recognized

- **Indemnification assets** - The seller in a business combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. The acquirer obtains an indemnification asset. The acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. **(Record Indemnification Asset only if related Liability is also Recorded)**

B) MEASUREMENT OF ASSETS & LIABILITIES -

- **Identifiable Assets and Liabilities acquired** and recorded shall be measured at FAIR VALUE as on Acquisition Date.
- **NCI** shall be measured first on Acquisition date either at (i) Fair Value or (ii) Proportionate share in the Net Assets of acquire.
- **NCI shall be re-measured on every BS Date** by any of the above method.
- **Income Tax Assets** - DTA or DTL shall be measured on Assets and liabilities acquired on business combination as per INDAS 12 only.
- **DBO of Employee Benefits** - Principles of INDAS 19 shall be followed.
- **Share based payments (ESOPs or Cash Liability)** - Principles of INDAS 102 shall be applicable.
- **Assets held for sale** - The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with Ind AS 105

C) MEASUREMENT PERIOD -

Ind AS 103 provides a measurement period window wherein if all the required information is not available on the acquisition date then the entity will be required to do the purchase price allocation on a provision basis.

Meaning - the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination.

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.

What if when New Information arise after acquisition during measurement period -

During the measurement period

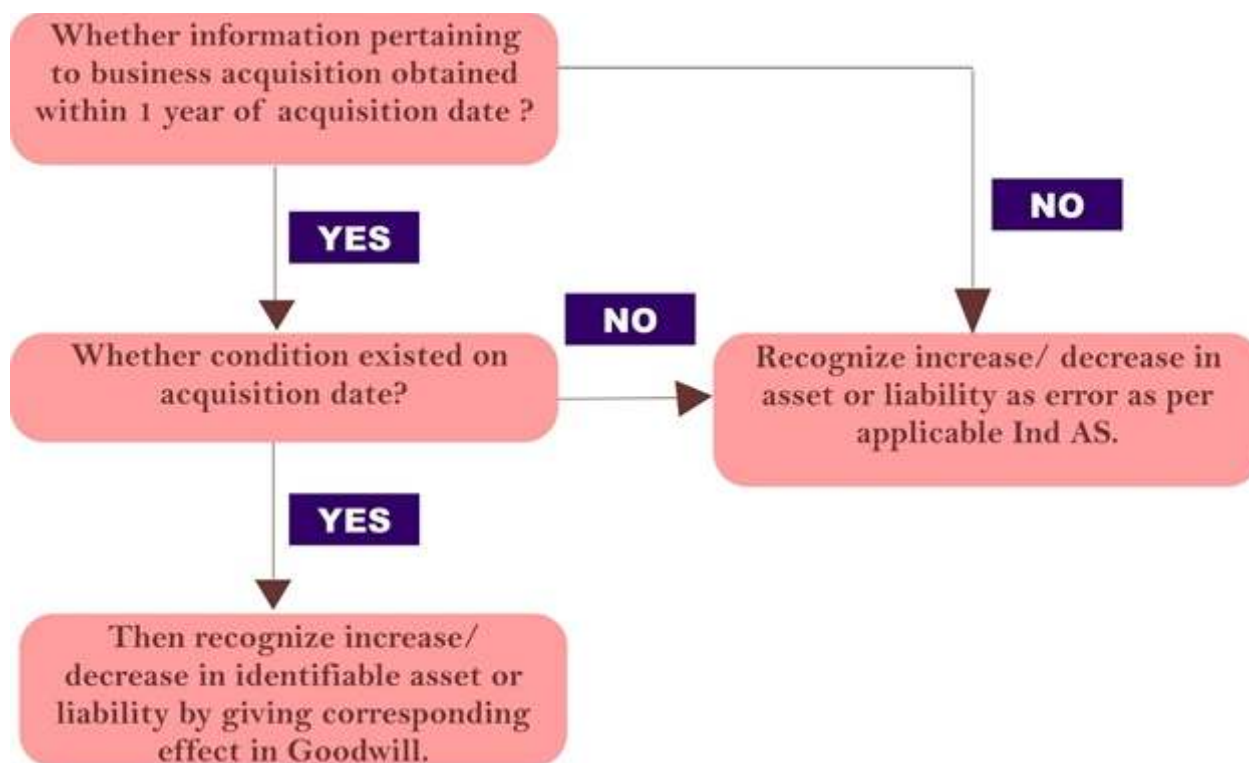
- The acquirer shall **retrospectively adjust the provisional amounts** recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date.
- The acquirer shall **also recognize additional assets or liabilities** if new information is obtained about facts and circumstances that existed as of the acquisition date.

Accounting - Adjust related Assets/Liabilities and NCI.

Any change i.e. increase and 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.

However, after the measurement period ends, any change in the value of assets and liabilities due to an information which existed on the valuation date will be accounted as an error as per Ind AS 8, Accounting policies, Changes in Accounting Estimates and Errors.



12. CONTROL OBTAINED OVER A SUBSIDIARY WITHOUT THE TRANSFER OF CONSIDERATION

An acquirer sometimes obtains control of an acquiree without transferring consideration. Such circumstances include:

- a) The **acquiree repurchases** a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.
- b) **Minority veto rights** lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.
- c) The acquirer and acquiree agree to combine their businesses **by contract** alone. The acquirer transfers no consideration in exchange for control of an acquiree and holds no equity interests in the acquiree, either on the acquisition date or previously. Examples of business combinations achieved by contract alone include bringing two businesses together in a stapling arrangement or forming a dual listed corporation.

Treatment:

In a business combination achieved without the transfer of consideration, "acquisition-date fair value of the consideration transferred" in the formula for measurement of goodwill or gain on bargain purchase is substituted by "acquisition-date fair value of its interest in the acquiree". In other words, the acquirer shall re-measure its existing equity interest in the acquiree at its acquisition date fair value (and recognize the gain or loss on such re-measurement in profit or loss or other comprehensive income, as the case may be) and use that to compute goodwill or gain on bargain purchase.

In a business combination achieved by contract alone, the acquirer shall attribute to the owners of the acquiree (i.e. those holding equity interests) the amount of the acquiree's net assets recognized in accordance with Ind AS 103. In other words, the equity interests in the acquiree held by parties other than the acquirer are a non-controlling interest in the ACQUIRER'S post-combination financial statements even if the result is that all of the equity interests in the acquiree are attributed to the non-controlling interest.

Example 19

A Ltd. obtained control over B Ltd. by contract alone. There is no stake in B Ltd. held by A Ltd. So, while preparing the consolidated financial statements, A Ltd. will attribute 100% of the net assets of B Ltd. to the non-controlling interest.

13. IMPAIRMENT OF GOODWILL

- Once the Goodwill is recognized on Business Combination under Consolidated Financial Statements, it is required to make impairment testing **on annual basis** on such goodwill as per IndAS 36 'Impairment of Assets'

One most common point to understand is Goodwill can never be shown (recognised) in SFS.

- Goodwill is not required to be amortized every period.**
- According to IndAS 36, Goodwill is tested for impairment by allocating it to the related CGUs of Parent as well as Subsidiary.
- Out of total impairment loss, Goodwill value is to be adjusted first.
- What are the items which would be affected due to impairment of goodwill?
 - Goodwill A/c recognized in CFS - Reduction
 - Consolidated Retained Earnings of Grp - Reduction
 - It may affect NCI also in case the NCI was measured as per Fair Value method (Full goodwill method)
- Goodwill is credited and debit effect would be given to -
 - Retained Earnings of Parent (Only Parent's Share) (If NCI is measured at Proportionate Share of Net Assets)
 - Retained Earnings of Parent (Parent's Share) & NCI (NCI's Share) (if NCI is measured at Fair Value)

Journal Entry in CFS

Full Goodwill Method	Partial Goodwill Method
Consolidated Retained Earnings A/c Dr NCI A/c Dr To Goodwill A/c	Consolidated Retained Earnings A/c Dr To Goodwill A/c

Example 20

P Ltd. acquired 80% of the share capital of S Ltd. two years ago, when the reserves of S Ltd. stood at Rs. 1,25,000. P Ltd. paid initial cash consideration of Rs 1 million. Additionally, P Ltd. issued 200,000 shares with a nominal value of Rs 1 and a current market value of Rs 1.80. It was also agreed that P Ltd. would pay a further Rs 500,000 in three years' time. Current interest rates are 10% pa. The appropriate discount factor for Rs1 receivable three years from now is 0.751. The shares and deferred consideration have not yet been recorded.

Below are the balance Sheet of P Ltd and S Ltd as at 31 December 20X4:

	P Ltd. (Rs. In 000)	S Ltd. (Rs. In 000)
Non-Current Assets		
Property, Plant and Equipment	5,500	1,500
Investment in S Ltd at Cost	1,000	
Current Assets		
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850
Equity		
Share Capital	2,000	500
Retained Capital	1,400	300
	3,400	800
Non-Current liabilities	3,000	400
Current Liabilities	1,250	650
	7,650	1,850

Further Information:

- At acquisition the fair values of S Ltd. plant exceeded its book value by Rs 200,000. The plant had a remaining useful life of five years at this date.
- For many years S Ltd. has been selling some of its produce under the brand name of M Ltd. at the date of acquisition the directors of P Ltd. valued this brand at Rs 2,50,000 with a remaining life of 10 years. The brand is not included in S Ltd Balanced Sheet.
- The consolidation goodwill has been impaired by Rs 2,58,000.
- The P Ltd Group values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 20% non-controlling interest was Rs 3,80,000

Prepare the consolidate Balance Sheet as at 31 December 20X4.

Answer:

P Ltd consolidate Balance Sheet at 31 December 20X4

Goodwill	783
Brand name	200
Property, plant & equipment (5,500+1,500+200-80)	7,120
Current Assets:	
Inventory (550+100)	650
Receivable (400+200)	600
Cash (200+50)	250
	9,603
Share Capital (2,000+200)	2,200
Share Premium (0+160)	160
Retained earnings	1,151
	3,511
Non -controlling interest	337
	3,848
Non-current Liabilities (3,000+400)	3,400
Current Liabilities (1,250+650)	1,900
Deferred consideration (376+79)	455
	9,603

14. CHANGE IN PERCENTAGE OF HOLDING OF PARENT CO.

A. Full/Partial Disposal of Share (with loss of control) with or without Significant Influence:

In case parent sells entire investments with loss of control or sells majority of investment and retain such portion which does not result in Control then consider following journal entry:

Bank A/c	Dr.	(Sale Proceeds)
Investments A/c	Dr.	(Value of retained investments if any at Fair Value)
Minority Interest	Dr.	(Proportionate share in NA)
Capital Reserve	Dr.	(Previously recognized if any on COC)
To Net Assets A/c		(Value on the date of sale)
To Goodwill A/c		(Previously recognized if any on COC)

(Any difference in above entry will be transfer to Profit and Loss A/c of Holding co.)

B. Purchase of additional shares or Disposal of shares affects NCI but Control exist:

Where proportion of the equity of NCI changes, then group shall adjust controlling and non-controlling interest and any difference between adjustment of NCI (increase or decrease) and fair value of consideration received is to be attributed to the Other Equity of Parent.

Journal Entries:

1. If additional shares purchased (control already exist)

Earlier 70% acquiring 10%

✓ NCI A/c (Pro rata adjustment)
To Cash A/c (Purchase Consideration)
(difference in above entry is directly transfer to other equity)

2. If some holding is disposed (control not lost)

90% → Sale 10%

510000 @ 30%
10%

Cash A/c Dr. (Sales proceeds)
To NCI A/c (Proportion of NA + Goodwill)
(difference in above entry is directly transfer to other equity)

C. Loss of control of a subsidiary in two or more transactions

A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction.

The above requirement is relevant because Ind AS 110 requires an entity to record gain / loss on disposal of investment in subsidiary in profit or loss only when the control is lost. This can give opportunity to an entity to arrange the disposal in such a way that it can reduce the amount to be recognized in profit or loss.

Example 21:

MN Ltd. was holding 80% stake in UV Ltd. Now, MN Ltd. wants to dispose its entire holding in UV Ltd. It can do it in following ways:

- **Option 1:** Sale entire 80% stake in single transaction. In this case, the entire gain / loss on sale of 80% stake would be recognized in profit or loss.
- **Option 2:** Sale 25% stake in one transaction and sale the remaining 55% stake in another transaction. In this case, the gain / loss on sale of 25% stake would be recognized directly in equity since it will be sale of stake without loss of control. When the remaining 55% stake is sold then the gain / loss pertaining to that stake will be recognized in profit or loss.

In determining whether to account for the arrangements as a single transaction, a parent shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the parent should account for the multiple arrangements as a single transaction:

They are entered into the same time or in contemplation of each other.

They form a single transaction designed to achieve an overall effect.

The occurrence of one arrangement dependent on the occurrence of at least one other

One arrangement considered on its own is not economically justified, unless it is considered together with other arrangements.
(e.g. when a disposal of shares is priced below market and is compensated for by a subsequent priced above market)

Example 22: -
Parent Limited. 31/3/24

	SFS	CFS
Other Assets	30,00,000	50,00,000
Investment in Subsidiary B 100%	8,00,000	-
C 100%	6,00,000	
Goodwill B	-	50,000
C	-	40,000
	44,00,000	50,90,000
Equity Share Capital	25,00,000	25,00,000
Other Equity	10,00,000	16,00,000
Liabilities	9,00,000	9,90,000
	44,00,000	50,90,000

Net Assets of C included in above Balance Sheet: -

Other Assets = 9,00,000

Liabilities = 2,50,000

No 1st April, 2024, Parent sold full Investment of 100% in C @ Rs. 7,00,000

On other transaction on 1st April prepare Separate Balance Sheet & CBS if Parent after above Transactions.

Solution:

SFS of Parent

Bank A/c	Dr.	7,00,000	
To Investment A/c			6,00,000
To Gain A/c			1,00,000

Separate Balance Sheet

Other Assets	37,00,000
Investment in B	8,00,000
	45,00,000
Equity Share Capital	25,00,000
Other Equity	11,00,000
Liabilities	9,00,000
	45,00,000

CFS of Parent

Bank A/c	Dr.	7,00,000	
Liabilities A/c	Dr.	2,50,000	
To Gain (P&L) A/c			10,000

To Assets A/c	9,00,000
To Goodwill A/c	40,000

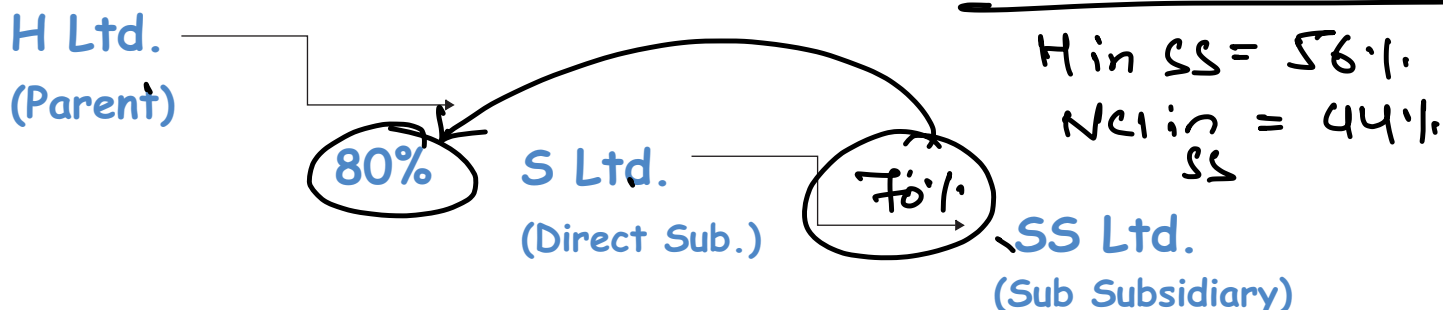
Consolidated Balance Sheet

Other Assets (50-9+7)	48,00,000
Goodwill	50,000
	48,50,000
Equity Share Capital	25,00,000
Other Equity (16,00,000 + 10,000)	16,10,000
Liabilities (9,90,000 - 2,50,000)	7,40,000
	48,50,000

15. CHAIN HOLDING

H in S :- 80%
NCI in S :- 20%

Let us understand this topic through given diagram:



IMPORTANT CONCEPTS:

1. Calculate Parent's Share (H Ltd.) in Direct Subsidiary (S Ltd.) and Calculate NCI's Share (outside share holders of S Ltd.) in Direct Subsidiary (S Ltd.)

H's Share in S Ltd. = 80%
NCI's Share in S Ltd. = 20%

2. Calculate Parent's Share (H Ltd.) in Indirect Subsidiary (SS Ltd.) and Calculate NCI's Share (outside share holders of SS Ltd.) in SS Ltd.

H's Share in SS Ltd. = 80% of 70% = 56%
NCI's Share in SS Ltd. = 100% - 56% = 44%

3. Prepare "Statement of Changes in Net Assets" of both the Subsidiaries (Direct S Ltd. and Indirect SS Ltd.) and bifurcate the Post Acquisition Column into Two Parts "Parent's Share" and "NCI's Share" which we usually do in every case.

4. While calculating Goodwill or GBP under Cost of Control working, the value of Investments (Purchase Consideration) shall be taken as under-

Full Value of Investment made by Parent in Direct Subsidiary S Ltd.
Investment Made by S Ltd. in SS Ltd. x Parent's Share

5. The portion of Investments belongs to NCI of S Ltd. i.e. Investment Made by S Ltd. in SS Ltd. x NCI's Share of S Ltd. shall be deducted from the Final working of NCI (Since NCI is having credit balance and Investment is having debit balance therefore it is deducted)

Example 23: - Chain Holding

Date of Acquisition = 1/7/23

A Ltd. acquired 90% Equity Investment in B Ltd. B Ltd. acquired 70% Investment in c Ltd.

Balance Sheet as on 31/3/24

	A	B	C
Investment: B - 90%	5,00,000	-	-
C - 70%	-	3,50,000	-
Other Assets	10,00,000	6,50,000	8,00,000
	15,00,000	10,00,000	8,00,000
Equity Share Capital	7,00,000	5,00,000	4,00,000
Reserves & Surplus	4,00,000	2,50,000	1,50,000
Liabilities	4,00,000	2,50,000	2,50,000
	15,00,000	10,00,000	8,00,000

- 1) Dividend paid by C on 1/8/23 @15%
- 2) Dividend paid by B on 1/8/23 @ 12%
- 3) C Ltd. Sold goods to A Ltd. Costing Rs. 40,000 @ Rs. 50,000 (All are unsold with A on Balance Sheet)
- 4) Other Assets are PPE & FV of PPE is 7,50,000 (B Ltd.) & 10,00,000 (C Ltd.)
Depreciation Rate is 10% P.A.
- 5) Tax Rate is 25%
- 6) Reserves & Surplus of B Ltd & C Ltd as on 1/4/23 are 90,000 & 60,000 respectively
Prepare Consolidated Balance Sheet of A Ltd.

Solution:

Working Note 1: Holding Ratio

A in B = 90%

NCI in B = 10%

A in C = 90% × 70% = 63%

NCI in C = 37%

Working Note 2: PPE Adjustment

	B	C
BV as on 31/3	6,50,000	8,00,000
BV as on 1/4 @10%	7,22,222	8,88,889
BV as on 1/7	7,04,167	8,66,66
7FV as on 1/7	7,50,000	10,00,000
FV Gain	45,833	1,33,333
Depreciation that has been charged from 1/7 to 31/3	54,167	66,667
Depreciation that should be charged on FV	56,250	75,000
Excess Depreciation	2,083	8,333

Working Note 3: SCNA of C

Particulars	DOA Position	Changes after DOA	Balance Sheet
Equity Share Capital	4,00,000	-	4,00,000
Reserves & Surplus	60,000	90,000	1,50,000
+ Dividend Paid	-	60,000	
	4,60,000	1,50,000	
(+/-) Time Adjustment for 3 Months	37,500	(37,500)	
	16,04,000	2,04,000	
(-) Unrealized Profit	-	(10,000)	
(+/-) PPE Adjustment	1,33,333	(8,333)	
(+/-) DTL on PPE	(33,333)	2,083	
+ DTA on Stock Adjustment	-	2,500	
	5,97,500	98,750	
	100% Net assets as on DOA	A - 63% = 62,213 NCI - 37% = 36,537	

SCNA of B

Particulars	DOA Position	Changes after DOA	Balance Sheet
Equity Share Capital	5,00,000	-	5,00,000
Reserves & Surplus	90,000	1,60,000	2,50,000
+ Dividend Paid by B	-	60,000	
(-) Dividend Received by B	-	(42,000)	
	5,90,000	1,78,000	

(+/-) Time Adjustment for 3 Months	44,500	(44,500)	
	6,34,500	1,33,500	
(-) Unrealized Profit	-	(10,000)	
(+/-) PPE Adjustment	45,833	(2,083)	
(+/-) DTL on PPE	(11,458)	521	
+ DTA on Stock Adjustment	-	-	
	6,68,875	1,31,938	
	100% Net assets as on DOA	A - 90% = 1,18,144 NCI - 10% = 13,194	

Working Note 4: Cost of Control

Investment	B Ltd.	C Ltd.
+ NCI as on DOA	5,00,000 ✓	3,15,000 ✓
(-) 100% Net Assets	66,888	2,21,075
Gain on Bargain Purchase 1,01,987	(6,68,875)	(5,97,500)
	61,425	

Working Note 5: Non-Controlling Interest

NCI as on DOA	B Ltd.	C Ltd.
+ Share in Post-Acquisition Profits	66,888	2,21,075
(-) Dividend	13,194	36,537
(-) <u>Share in Investment of B's NCI</u>	(6,000)	(18,000)
	(35,000)	-
	39,082	2,39,612

Working Note 6: Consolidated Other Equity

Other Equity Balance with A	R&S	CR
Share in Post-Acquisition Profits B	4,00,000	-
C	1,18,744	-
	62,213	
(-) Dividend received from B	(54,000)	
+ Gain on Bargain Purchase B	-	1,01,987
C	-	61,425
	5,26,957	1,63,412

Consolidated Balance Sheet of Group

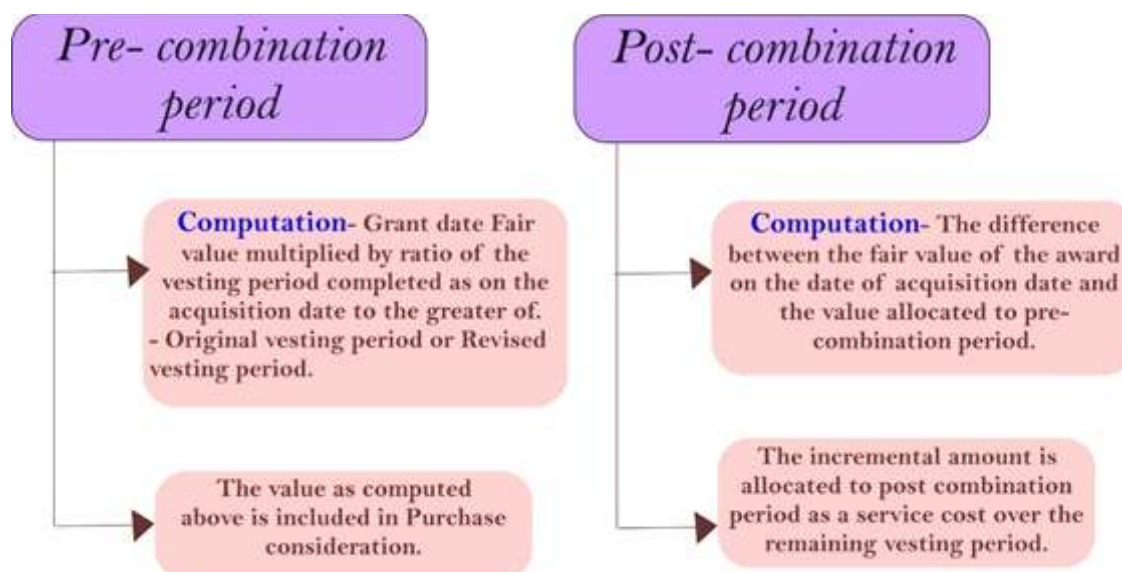
		B Ltd.
1) Other Assets	A (10,00,000 - 10,000) = 9,90,000	26,08,750
	B = 6,50,000 FV = 45,833 Dep = (2,083) 6,93,750	
	C = 8,00,000 FV = 1,33,333 Dep = (8,333) 6,93,750	
2) DTA (On Unrealized Profit)		2,500
Total		26,11,250
1) Equity Share Capital		7,00,000
2) Other Equity		6,90,369
3) NCI	B = 39,082 C = 2,39,612	2,78,694
4) Liabilities DTL	B = 10,937 C = 31,2504	2,187
5) Other Liabilities		9,00,000
Total		26,11,250

16. ACQUIRER'S SHARE BASED PAYMENT AWARDS EXCHANGED FOR AWARDS HELD BY THE Acquiree's EMPLOYEES

Introduction:

If the acquirer replaces the acquiree awards, either all or a portion of the market-based measure of the ACQUIRER'S replacement awards shall be included in measuring the consideration transferred in the business combination.

Market based measure means that awards will be re-measured on the acquisition date as per the requirements of Ind AS 102.



Treatment:

In situations in which acquiree awards would **expire** as a consequence of a business combination and if the **acquirer replaces those awards when it is not obliged to do so**, all of the market-based measure of the replacement awards shall be recognized as remuneration cost in the post-combination financial statements in accordance with Ind AS 102. That is to say, none of the market-based measure of those awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement

17. PRE-EXISTING RELATIONSHIP BETWEEN ACQUIRER AND ACQUIREE

There can be two types of relationships:

1) Non-contractual Relationship:

- Example** - Law Suit filed by acquirer on acquiree or vice versa
- If acquirer and acquiree agreed to settle these law suits due to business combination by paying/receiving compensation, then it needs to be considered under Business Combination Accounting in the books of acquirer on date of acquisition.
- Above compensation shall not become part of Purchase Consideration. It is to be recognized separately as under:

✓ Compensation Receivable A/c Dr. To Gain (P&L) A/c	✓ Loss (P&L) A/c Dr. To Compensation Payable A/c
--	---

- If any receivable/payable is shown in Books of Acquiree then it shall not become part of Net Assets.

2) Contractual Relationships:

- Example - Required Rights** (i.e. Franchise rights given by Acquirer to Acquiree prior to date of acquisition)
- On date of Acquisition, acquirer shall recognise:
 - "Required Rights" as a Separate Identifiable Intangible Asset apart from other Net Assets Acquired at Fair Value
 - "Loss on Cancellation of Rights" of Lower of:
 - Penalty Payable as per Contractual Terms; or
 - Difference between Fair Value of Required Right & Proportionate Value of Contract
- Journal Entry of above Loss on Cancellation:

Loss on Cancellation (P&L) A/c Dr.
To Penalty Payable A/c

Example 24:

Aakash Ltd. is Sued by Subhash Ltd. for a legal claim of Rs. 10 Lacs for a use of Trademark of Subhash Ltd. Aakash Ltd. has made provision for penalty payable of Rs. 6 Lacs. However Subhash Ltd. has not recognized any receivable for penalty.

After 1 year (Case is not yet settled), Subhash Ltd. acquired control over Aakash for a Consideration of Rs. 62 Lacs (net of above penalty claim).

Fair Value of Claim on Date of Acquisition is Rs. 10 Lacs

Fair Value of Net Assets Acquired of Aakash Ltd. is Rs. 70 Lacs.

Assume NCI is Nil. Calculate Goodwill or Gain from Bargain Purchase.

Golden Rule :- PC should be kept separate from Pre-existing Relationships. PC Should not included the effect of pre-existing Relationship. PER should be recog. Separately # Fv on DOA.

Gross PC for acquiring Control = $62 + 10 = 72$

Journal Entries in the Books of subhash Ltd.

1) Compensation Refundable Dr. To Gain (P&I)	10	10
2) Net Asset Dr. Goodwill Dr.	70 2	2
3) Consideration payable To Compensation Receivable To Bank / Cash	72 10 62	72 10 62

Example 25:

Consider above Example 1 with following changes:

- Now Subhash Ltd. is sued by Aakash Ltd.
- Gross Final Consideration Payable by Subhash Ltd. towards acquisition of business is Rs. 85 Lacs
- Both Companies have not passed any entry of Payable or receivable of penalty in their books.

Solution

Actual Consideration to world acquiring Control = $85 - 10 = 75$ Lacs.

1) Loss (P&I) Dr. To Compensation Payable	10	10
2) Net Assets Dr. Goodwill Dr. (b/f) To Consideration Payable	70 5 75	
3) Consideration Payable Dr. Compensation Payable Dr. To Bank A/c	75 10 85	

Example 26:

Vsmart Academy Pune provided franchise rights for 10 years to Kolkata based Coaching Center for Rs. 10 Lacs. Penalty clause as per the contract due to cancellation of Franchise is 110% of remaining period of proportionate franchise fees.

After two years, Vsmart acquired Kolkata center at a consideration of Rs. 60 Lacs (Including Penalty). Fair Value of Net Assets of Kolkata is Rs. 40 Lacs (other than Franchise Rights).

Fair Value of Franchise Rights as on DOA is Rs. 15 Lacs.

Solution:

1) Proportional Values of Contract = $\frac{10}{10} \times 8 = 8$ Lacs.

2) Penalty as per Contract = $8 \text{ Lacs} + 10\% = 8.8$ Lacs.

3) Fair Value of Reacquired Rights = 15 Lacs.

4) Differences Between FV & prop. Value of Contract = 7 Lacs. (3-1)

5) Lower will 7 Lacs Payable which is recognised as penalty
 6) PC for control acquisition = $60 - 7 = 53$ Lacs

DOA (Journal entry)

1) Loss as Cancellation (P&I) To Penalty Payable	7	7
2) Net Assets a/c Dr. ReAcq. Rights a/c Dr. To Consideration Payable To GBP (OCI - CR)	40 15	53 2
3) Penalty Payable Dr. Consideration Payable Dr. To Bank a/c	7 53	60

18. DEMERGER

Demerger is an arrangement whereby some part/undertaking of one company is transferred to another company which operates completely separate from the original company. Shareholders of the original company are usually given an equivalent stake of ownership in the new company. Demerger is undertaken basically for following reasons:

- To give effect to of family partitions in case of family owned enterprises.
- A demerger is also done to help each of the segments operate more smoothly, as they can focus on a more specific task.

Accounting Treatment

Demerged company shall transfer its business (Net Assets) to resultant company. In the books of demerged company, all Assets and Liabilities of the segment demerged shall be de-recognized and loss on demerger or loss on reconstruction is recognized in the equity.

Resultant Company shall follow IndAS 103 - acquisition method i.e. it shall record the Net Assets at Fair Value. Any difference between purchased consideration and fair value of net assets shall be recognized as Goodwill or Gain from bargain purchase (Capital Reserve).

19. COMMON CONTROL BUSINESS COMBINATIONS

(Appendix C of IndAS 103)

1. What is Common Control Business Combination (CCBC)?

Common control business combinations means a business combinations involving entities or businesses in which all 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 (i.e control should not be temporary)

"CONTROL DOES NOT TRANSFER"; IT EXIST WITH SAME ENTITY

Common control business combinations will include transactions, such as transfer of subsidiaries or businesses, between entities within a group.

2. Which accounting method is prescribed for CCBC?

Pooling of interests method is applied under Common Control business combination by both transferor and transferee companies as under:

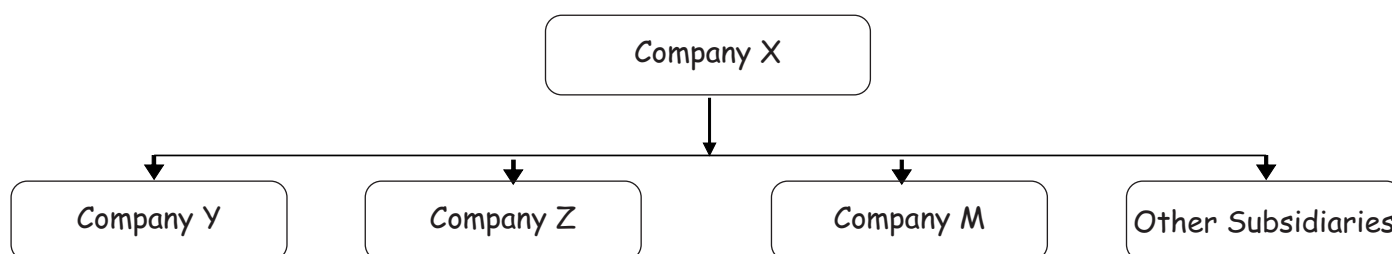
- Assets and Liabilities are derecognized by transferor and recognized by transferee **at Book Values.**
- **All the Reserves and Surplus** of transferor is maintained by Transferee Company.
- Consideration (PC) is calculated at Fair value and recorded accordingly.

Any difference in above shall be **transfer to Capital Reserve** in transferor and transferee company.

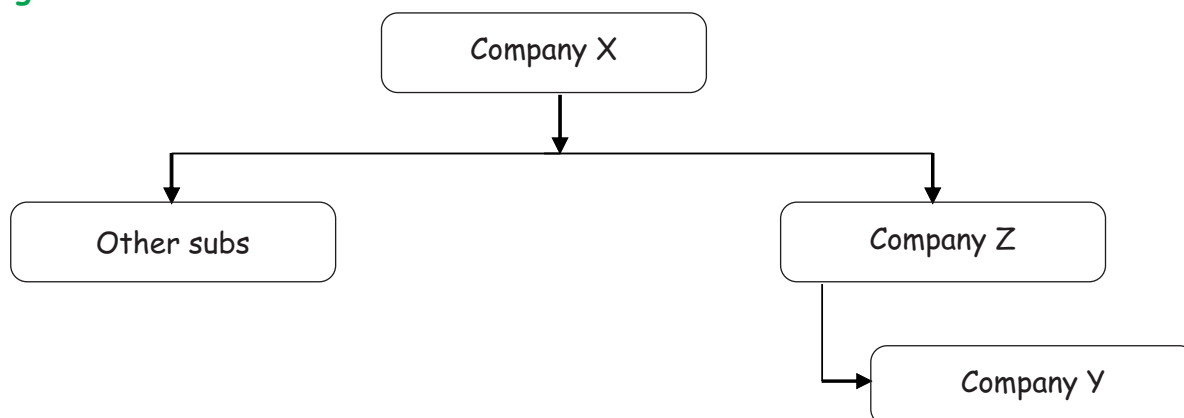
3. Example on Common Control Transaction:

Company X, the ultimate parent of a large number of subsidiaries, recognizes the retail segment of its business to consolidate all of its retail businesses in a single entity. Under the recognition, Company Z (a subsidiary and the biggest retail company in the group) acquires Company X's shareholding in its one operating subsidiary; Company Y by issuing its own shares to Company X. after the transaction, Company X will indirectly control the operating and financial policies of Companies Y.

Before-re-organization



After re-organization



In this situation, Company Z pays consideration to company X to obtain control of Company Y. The transaction meets the definition of a business combination. Prior to the re-organization, each of the parties are controlled by Company X. after the re-organization, although Company Y are now owned by Company Z, all two companies are still ultimately owned and controlled by Company X. From the perspective of Company X, there has been no change as a result of the re-organization. This transaction therefore meets the definition of a common control combination and is in the scope of Ind AS 103.

Different Cases of Common Control Business Combination:

When Two Companies merge & Form A New Company	When Subsidiary of a Group Acquires Control of Another Existing Subsidiary of Same Group	An Existing Company Transfers One Division to A Newly Incorporated Company
When Two Companies merge & Form a New Company in Which Shareholders of Both Companies Shall have same Rights. Example - A Ltd. + B Ltd. = C Ltd. Under this case, Purchase Consideration will be Equal to Sum of Share Capital of Both the Companies if Separate Purchase Consideration is not given.	Example - A Ltd. Holds 90% Share Capital of B Ltd. & 80% Share Capital of C Ltd. Now A Ltd. Sold its investment in C Ltd. to B Ltd. (This means Subsidiary of a Group Acquires Control of another Existing Subsidiary of Same Group)	An Existing Company Transfers One Division to a Newly Incorporated Company such New Company Issues Shares to the Share Holders of Existing Company, as a result of which such Share Holders get Control over the New Company. i.e. Control over the Transferred Division is not Shifted. It Exist with Same Members of Group. (These Shareholders were already having control over Net Assets of Existing Company. However it may be noted that this may also result into Demerger)

(A) How to Calculate Purchase Consideration in Common Control Business Combination transaction if Purchase Consideration is Not Given in Question?

Answer:

Under Common Control Business Transaction, Rights/Control does not Transfer, it should remain with same Party.

Therefore, If Two Companies are getting Merged under Common Control Business Transaction Then we should make sure that Rights of Shareholders of Both the Companies remain Unaltered in the Future Profits of the New Company.

Therefore, Purchase Consideration is Equal to the Sum of Equity Share Capital of Both the Companies. (In Above Example $PC = ESC A Ltd. + ESC B Ltd.$)

(B) How to Allocate Above Purchase Consideration to the Share Holders of Both Companies?

Answer:

Total Purchase Consideration should be allocated in Proportion of "Book Value of Net Assets Taken Over" of Both the Companies.

Common Control Business Combination (CCBC) (Appendix C of Ind AS 103)

Example 27: -

A Ltd. holding 100% in B Ltd. and 100% in C Ltd.

A Ltd. sold its 100% Investment in C Ltd. to B Ltd.

Is there any change in the Group?

Solution:

NO

Earlier B & C were under the Common Control of A.

Even after the above transaction still B & C are under the Common Control of A.

Acquisition Method

B Ltd Consolidated Financial Statement (B + C)

Asset B	xxxx
C (FV)	
Goodwill	xxxx
	xxxx
Liabilities B	xxxx
C (FV)	
NCI	xxxx
GBP	xxxx

From A's Point of View (Group Point of View) (CCBC Accounting)

Consolidated Financial Statement

Asset A	xxxx
B	
C (Book Value)	
Goodwill	xxxx
	xxxx

CCBC means an arrangement where ultimate Control exist with same Party / Parties / Entity.
(Controlling Entity / Party is same)

Example 28:

A Ltd. having 3 Promoters Gargee, Nisha & Mansi

B Ltd. having 3 Promoters Rahul, Abhi & Rajat.

A & B Ltd are merged & formed C Ltd. Where all 6 will have Equal Control over C Ltd

Solution:

This is also CCBC Since C Ltd. is under the Common Control of A Ltd. & B Ltd.

C Ltd. (New Company) Shall follow CCBC Accounting & not Acquisition method as this is a case of Merger.

	C Ltd.
Asset A (BV) ✓	xxxx
B (BV) ✓	
Liabilities A (BV) ✓	xxxx
B (BV) ✓	
Reserves & Surplus A	xxxx
B	

Example 29: -

A Ltd. is formed by Mr. Chawla & Mrs. Chawla 50% Each.

B Ltd. is also formed & Controlled by Mr. & Mrs. Chawla.

Solution:

A Ltd. & B Ltd. are under the Common Control of Mr. & Mrs. Chawla.

Example 30: -

A Ltd. having Shareholders Rajat, Mansi & Nisha holding 33%, 33% & 34% Respectively.

B Ltd. having Shareholders Rajat, Mansi & Nisha holding 33%, 33% & 34% Respectively.

(Individuals are not related to Each other)

Mansi & Nisha entered into an arrangement to Jointly Control A & B Together.

Solution:

A Ltd. & B Ltd. are under the Common Control of Mansi and Nisha Jointly

20. REVERSE ACQUISITION

Imp.

A. Under IndAS 103 Business Combination: 'ACQUISITION METHODs. is applicable. This method has 4 steps:

1. Identifying the Acquirer,
2. Determining the Acquisition date,
3. Recognizing and Measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
4. Recognizing and Measuring Goodwill or a Gain from a Bargain Purchase.

B. As per Step 1 - Acquirer needs to be identified. Most of the time, it's straightforward - the acquirer is usually **the investor who acquires** an investment or a subsidiary or a business. Acquirer means an Entity who obtains Control of businesses.

C. But sometimes acquirer may be different from legal acquirer (Reverse Acquisition). In such case, accounting acquirer is identified.

Example 31: X Ltd. acquired the business of Y Ltd. It will issue 5 shares of Rs. 10 each for every 2 shares held.

No. of O/s shares in X - 8000 shares

No. of O/s shares in Y - 7000 shares

Net Assets of Y - 90000/-

Identify the acquirer.

D. Preparation & Presentation of Consolidated Financial Statements:

CFS shall be issued under the name of Legal Acquirer but described in the notes as a continuation of the FS of the Accounting Acquirer (Legal Subsidiary) with ONE ADJUSTEMENT, which is to adjust retroactively the accounting ACQUIRER'S legal capital to reflect the legal capital of the legal acquirer.

Total Share Capital = SC of Accounting Acquirer+ PC to Legal Acquirer

Reconciliation of legal SC of the entity whose FS are being prepared (Legal Acquirer) with Presented Share Capital (as above) to be disclosed

Reserves of Accounting Acquirer to be only recognized, at its carrying amount

Goodwill or GBP = FV of Consideration - FV of Net Assets of Legal Acquirer

Fair Value of Consideration -

The Assets, Liabilities, Retained Earnings and other Equity balances of accounting acquirer - shall be recognized and measured at carrying amount.

The Assets & Liabilities of Legal Acquirer - shall be recognized and measured as per IndAS 103

i.e. Fair Value.

NCI (some of the owners of accounting acquirer might not exchange their equity interests for equity interest of the legal acquirer) - they shall be measured at proportionate share of Net Assets of Accounting Acquirer (i.e. % of Carrying amount of Net Assets)

E. How to Calculate the EPS after Business Combination-

Earnings Available to ESH / W. Avg. No. of Equity Shares

(a) Earnings Available to ESH:

EAESH of Accounting Acquirer for a period before Business Combination

(+)

EAESH of Combined Entity after Business Combination

(b) W. Avg. No. of Equity Shares:

Legal no. shares in the combined entity to Accounting Acquirer for full year

(+)

Legal no. Shares with legal Acquirer for Post Combination Period only

Most Important Question is How to Calculate the Consideration under Reverse Acquisition that Should be Discharged by Accounting Acquirer against getting Control?

CASE 1 - (Q1302)	CASE 2 - (Q1301)																
Takeover by One Company of a Company	Merger of Two or More Companies																
a) An Exchange ratio Must be given b) Fair Value of Accounting Acquirer shall also be given. c) Based on Above Exchange Ratio, Calculate the number of shares which are to be issued by legal acquirer to Accounting Acquirer. d) Now calculate Percentage of Holding of Total Outstanding shares of Legal Acquirer (% of Holding means % of Shares Held by Accounting Acquirer in Legal Acquirer) (If this Percentage is more than 50% then we can say that this is the case of reverse acquisition) e) Taking above % as a base & Taking Shares outstanding of Accounting Acquirer as a base calculate purchase consideration as under: {[O/s Shares issued by A/c Acq. / % of Holding (Point d) X 100] - O/s shares issued by A/c Acq.} X Fair Value per share of A/c Acquirer	Exchange Ratio if Not Given then fair value of both the companies may be given. Purchase Consideration is equal to FV of Business of Legal Acquirer. <u>How to identify that it is Reverse Acquisition?</u> Based on above fair value ratios if percentage of fair value is more than 50% then it is reverse acquisition. <table><tr><td></td><td>A</td><td>B</td><td>Total</td></tr><tr><td>FV</td><td>10000</td><td>14000</td><td>= 25000</td></tr><tr><td></td><td>$\frac{11}{25} \times 100$</td><td>$\frac{14}{25} \times 100$</td><td></td></tr><tr><td></td><td>44%</td><td>56%</td><td></td></tr></table> 56% with B means B is Acq. acquired		A	B	Total	FV	10000	14000	= 25000		$\frac{11}{25} \times 100$	$\frac{14}{25} \times 100$			44%	56%	
	A	B	Total														
FV	10000	14000	= 25000														
	$\frac{11}{25} \times 100$	$\frac{14}{25} \times 100$															
	44%	56%															

Example 32
Hw

The Balance Sheets of Entity A and Entity B immediately before business acquisition are as follows:

Amount (₹ in thousands)

Particulars	Entity A	Entity B
Current Assets	600	800
Non-Current Assets	<u>1,200</u>	<u>2,900</u>
Total Assets	<u>1,800</u>	<u>3,700</u>
Current Liabilities	400	200
Non - Current Liabilities	<u>300</u>	<u>1,200</u>
Total Liabilities	<u>700</u>	<u>1,400</u>
Equity		
30,000 Shares of ₹ 10 Each	300	
60,000 Shares of ₹ 10 Each		<u>600</u>
Retained Earnings	<u>800</u>	<u>1,700</u>
Total Equity	<u>1,100</u>	<u>1,200</u>
Total Equity and Liability	<u>1,800</u>	<u>3,700</u>

On 31 March 20X1, Entity A issues 2.5 shares in exchange for each share of Entity B. All of entity B's shareholders exchange their shares. Therefore, Entity A issues 1,50,000 shares in exchange for all 60,000 shares of entity B. Entity A legally owns 100% of entity B.

The shareholders of Entity B own 83.33% ($1,50,000/1,80,000$) of the combined entity. The directors of entity B are appointed 6 out of 8 positions in combined entity board. In accordance with Ind AS 103, Entity B (Legal Acquiree) is the accounting acquirer and Entity A (Legal Acquirer) is the accounting acquiree as Entity B shareholders control over combined entity.

The quoted market price of Entity B's share as at 31st March, 20X1 is ₹ 105 per share and Entity A's share price as at 31st March, 20X1 is ₹ 20 per share.

Assume the fair value of Entity A's identifiable net assets as at 31st March, 20X1 are the same as carrying values and ignore tax effect.

The acquisition date fair value (i.e. at 31st March, 20X1) of the accounting acquirer equity instrument is generally used to determine the amount of consideration transferred for business combination. In this case it is 105 per share (Entity B).

So if the business combination had taken place in the form of Entity B issuing additional shares to Entity A's shareholders in exchange for their shares in Entity A, Entity B would have to issue 12,000 shares ($30,000 / 2.5$) for the ratio of ownership interest in the combined entity to be same. ($12,000/72,000$). Therefore, the consideration for the business combination effectively transferred by Entity B is ₹ 12,60,000 (12000 Shares x 105).

Calculation of Goodwill:

Fair value of Assets less Liabilities Assumed (Entity A)	-	₹11,00,000
Consideration transferred (by Entity B)	-	(₹12,60,000)
Goodwill	-	<u>₹1,60,00</u>

Example 33: - (Identifying Accounting Acquirer)

Idea Ltd. acquired the Net Assets of Vodafone & issued shares as a consideration.

Idea issues 5 shares for every 2 Held by Share Holders of Vodafone

Outstanding Shares of Vodafone is 1,00,000 No. $\div 83.33\% = 120000$
 $- 100000$
20000

Outstanding Shares of Idea is 50,000 No.

Who is Accounting Acquirer & Legal Acquirer?

Solution:

Idea shall issue to Vodafone Share Holders = $1,00,000 / 2 \times 5 = 2,50,000$ No.

Now, after above issue, Total Outstanding Equity Shares of Idea will be $50,000 + 2,50,000$ No. i.e., 3,00,000 No.

Who are the Share Holders of Idea?

50,000 No. Held by Old Share Holders of Idea = 16.67% ✓

2,50,000 No. Held by New Share Holders of Idea who were earlier Shareholders in Vodafone = 83.33%

Since Share Holders of Vodafone are having 83.33% Voting Rights It can be said that Vodafone is Accounting Acquirer.

Idea is Accounting Acquiree although Idea is a Legal Acquirer

Balance Sheet of Idea Ltd. & Group

Asset		
	Vodafone (CA)	xxxx
	Idea (Fair Value)	
Liabilities		
	Vodafone (CA)	xxxx
	Idea (Fair Value)	

Example 34: -

How to Calculate the PC that should be discharges by Vodafone against Control

FV of one Share: -

Idea = 40/-

Vodafone = 75/- ✓

Since Vodafone gets 83.33% in Idea.

Vodafone Existing Outstanding Shares = 1,00,000

$1,00,000 / 83.33\% \times 16.67\% = 20,000$ No.

Vodafone should have issued 20,000 No. to Obtain Control & Voting Rights over Idea

PC = $20,000 \times 75/- = 15,00,000/-$

Example 35: -

Calculate Goodwill / Gain on Bargain Purchase if FV of Net Assets of Idea is 14,20,000

Solution:

PC to Acquiree = 15,00,000

+ NCI = 0

(-) 100% Net Assets = (14,20,000)

Goodwill (Only for A/c Purpose) = 80,000

Student Notes:-



TOPIC 04

INDAS 110 – CONSOLIDATED FINANCIAL STATEMENTS

Index

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12.	Control of Specified Assets	28.37
13.	ADDITIONAL QUESTIONS FROM ICAI	28.38

Quote:

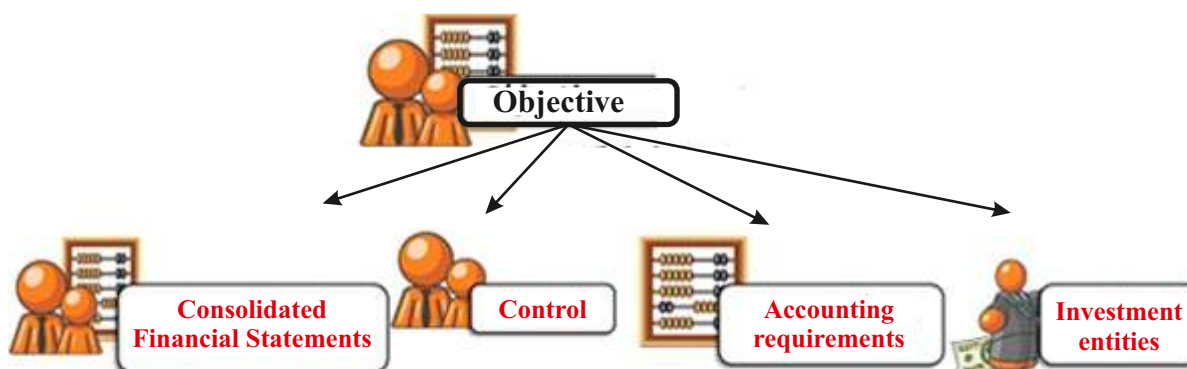
“Sit with winners, the conversation will be different”

(1) WHAT IS THE OBJECTIVE OF INDAS 110?

The objective of INDAS 110 Consolidated Financial Statements is to establish principles for the **presentation and preparation of consolidated financial statements** when an entity controls another entity.

More specifically, INDAS 110:

- Requires an entity (a parent) that **controls** one or more other entities (subsidiaries) to **present consolidated financial statements**;
- Defines the **principle of control** as the basis for consolidation and sets out how to identify whether the investor controls the investee;
- Sets out the **accounting requirements** for the preparation of consolidated financial statements, and
- Defines an **Investment Entity** and sets out an exception to consolidating particular subsidiaries of an investment entity.



(2) CONTROL AS THE BASIS FOR CONSOLIDATION

Simply speaking, the basic rule is:

- If an investor controls its investee => **investor must consolidate**;
- If an investor **does NOT control** its investee => **investor does NOT consolidate**.

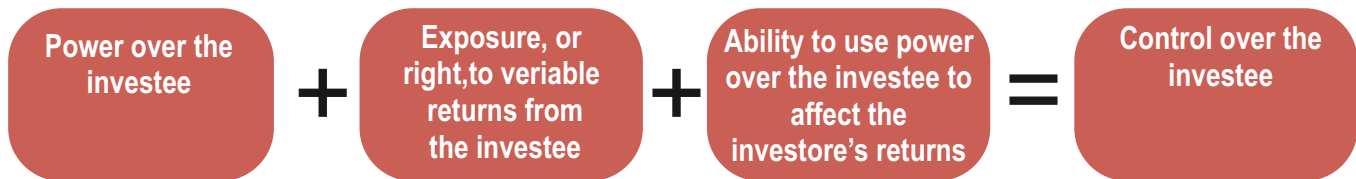
So what is control?

An investor **controls** an investee when the investor:

- Is exposed to, or has right to **variable returns** from its involvement with the investee;
- Has the **ability to affect** those returns
- Through its **power** over the investee.

(3) HOW TO ASSESS CONTROL?

- As per IndAS 110, an investor needs to determine whether it controls an investee and if yes then the investor would be treated as a parent and the investee would be treated as a subsidiary of the parent.
- An investor controls an investee if and only if the investor has all of the following three elements:



- After doing an initial assessment of control over an investee, the investor should reassess the control over the investee when there are changes to one or more of the three elements of control mentioned above.
- Further, there may be situations where the investor is not the only one who control the investee and it may need to act in co-operation with any other entity. There may also be a situation where there is no investor who individually controls the investee. In such scenario, the investor would account for the interest in such investees in accordance with other applicable Ind AS such as Ind AS 111 for joint arrangement, Ind AS 28 for investments in associates or Ind AS 109 for financial instruments.

(4) **POWER**

Power is the existing rights that give the current ability to direct the relevant activities. Let's break it down a bit:

- The rights must be substantive, not only some minor rights;
- The ability must be current, exercisable in the present time;
- The relevant activities must be significant and related to major activities of investee.

Examples of activities related to operating and financing activities that can be relevant activities include, but not limited to:

Selling and purchasing
of good and services

Managing financial
assets during their life
(including upon default)

Selecting , acquiring or
disposing of assets

Researching and
developing new products
of processes

Determining a funding
structure or obtaining
funding

Establishing operating
and capital decisions of
th investee , including
budgets

Appointing ,terminating and
remunerating an investee's key
management personnel or service
providers

In simple situations, control can be demonstrated through voting rights. If an entity acquires over 50% of voting rights, entity controls the investee;

However, in complex situations, voting rights may not be the sole indicator. As required by IndAS, the principle of substance over form shall prevail.

When assessing whether an investor controls an investee, more than one factor need to be considered. INDAS 110 contains guidance in this area.

Apply following steps to assess control

- Check the purpose of the Investee - why it has been formed
- What is the design of the Investee (Firm, Trust, Listed Company, Private Company, Society, SPV etc) and how it is controlled i.e. through voting power, shareholders' agreement, Contractual arrangement?
- Who takes the decision (who is decision maker) on relevant activities of the Investee - which investor is able to direct the activities that most significantly affect those returns consistently with the treatment of concurrent decision making rights.
- Whether the decision maker is empowered/has the right to take decision - i.e. who has the power? **The rights of the investor could be substantive rights or protective rights.**

Substantive rights:

Ownership of more than fifty percent of the voting rights, generally gives an investor the power. But this could be subject to regulatory restrictions, rights held by the other parties. Thus the voting rights may not be substantive.

Example of Substantive Rights:

- Rights in the form of voting rights (or potential voting rights) of an investee;
- rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities;
- Rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor; and
- The investee's key management personnel are related parties of the investor (for example, the chief executive officer of the investee and the chief executive officer of the investor are the same person).
- The majority of the members of the investee's governing body are related parties of the investor.
- Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

Protective rights:

Protective rights are designed to protect the interests of their holders without giving that party power over the investee to which those rights relate. An investor that holds only protective rights **cannot have power or prevent another party from having power over an investee**. Protective rights relate to fundamental changes to the activities of an investee or apply in exceptional circumstances.

FORM OF RIGHT	ILLUSTRATION
Voting rights or potential voting rights of an investee (this is further explained subsequently in this unit).	An investor holding majority of the equity share capital of an investee. Concepts of power through voting or potential voting rights are further discussed in detail under Heading Voting Right of this unit.
Rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities.	An investor having right to appoint majority of the members of the Board of Director who have power to take decisions related to relevant activities.
Rights to appoint or remove another entity that directs the relevant activities.	Right with an investor to appoint or remove an asset manager who takes decisions related to investments / divestments by a venture capital fund.
Rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor.	Right with an investor to direct the investee to sell all of its outputs to a group company of the investor at the price determined by investor
Rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor.	Right with an investor to direct the investee to sell all of its outputs to a group company of the investor at the price determined by investor
Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.	Right related to relevant activities given to a single investor by all other investors through a shareholders' agreement

In most of the case where the investee has a range of relevant activities and decisions are required to be taken on a continuous basis for those activities then it will be voting or similar rights that give an investor power over the investee.

Type of rights held by investor	Type of rights held by other parties	Conclusion on 'power'?
Substantive	Protective	Investor has power
Protective	Substantive	other parties have power
Substantive	Substantive	Further evaluation needed

4.1 FRANCHISES

One example of protective rights can be of rights of a franchisor in a franchise agreement. In a franchise agreement, the investee i.e. the franchisee usually give the franchisor the rights that are related to protect the franchise brand. Following are some of the salient features of a franchise arrangement which indicates that the rights of a franchisor in a franchise agreement are protective rights:

1. Franchisor's right do not give it ability to direct relevant activities of Franchisee.
2. Other party have current ability to direct relevant activities of the franchisee.
3. Franchisor's rights do not affect the rights of others to take decision about relevant activities.
4. Franchisee operates the business for its own account.

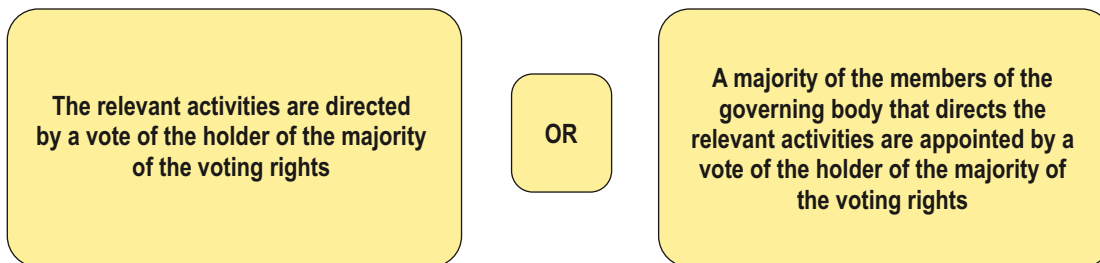
Based on above features, it can be said that Franchisor doesn't have substantive rights over the Franchisee.

4.2 POWER THROUGH VOTING RIGHTS

In the most straightforward cases, the investor that holds a majority of voting rights has power over an investee. However, there can be certain cases where an investor can have power even if it holds less than a majority of the voting rights of an investee.

A. Power with a majority of the voting rights

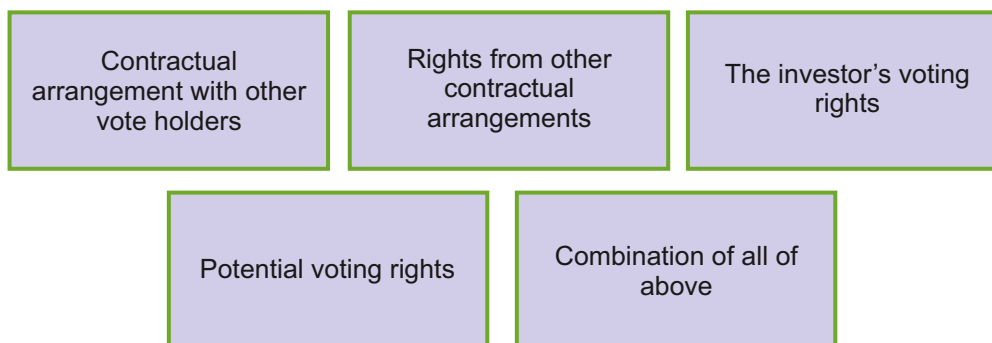
An investor that holds more than half of the voting rights of an investee has power in the following situations:



For example, in case of a company where the decisions related to relevant activities are taken by Board of Directors of the company and the Board members are appointed by shareholder holding majority of the voting rights. Then the shareholder holding majority of the voting rights has power over the company.

B. Power without a majority of voting rights

There can be certain cases where an investor can have power even if it holds less than a majority of the voting rights of an investee. Following are the examples of power without majority voting rights:



(a) Contractual arrangement with other vote holders

An investor, who is not holding voting rights that are sufficient to give it power over the investee, may enter into a contract with other vote holders to give the investor rights to exercise voting rights which are **sufficient to have power over the investee**. In such case, the investor would direct the other vote holders on how they should vote whereby the investor gets power to direct the decision related to relevant activities.

(b) Rights from other contractual arrangements

Apart from holding voting rights, an investor might be having decisions-making rights related to relevant activities of the investee pursuant to a contractual arrangement. Such contractual rights **in combination with voting rights** may give investor power to direct the relevant activities like manufacturing process of the investee or other operating and financing activities of the investee.

However, in the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee.

(c) The investor's voting rights

There may be certain situations where even though an investor is not holding majority of the voting rights, but the voting rights held by it are **sufficient to give it practical ability** to have power over the investee unilaterally. Generally, this is termed as de-facto control.

(d) Potential voting rights

Potential voting rights are rights to obtain voting rights of an investee, such as those arising from **convertible instruments or options or forward contracts**. Those potential voting rights are considered only if the rights are substantive as per the guidance discussed earlier.

When considering potential voting rights, an investor shall consider the purpose and design of the instrument giving those rights as well as any other benefits that the investor would get from the exercise of those rights.

Potential voting rights are to be considered in combination with voting or other decisions-making rights that the investor might have to assess whether investor has power or not.

4.3 EXPOSURE, OR RIGHTS, TO VARIABLE RETURNS FROM AN INVESTEE

When assessing whether an investor has control of an investee, the investor determines whether it is exposed, or has rights, to 'variable returns' from its involvement with the investee. Variable returns are returns that are not fixed and have the **potential to vary as a result of the performance of an investee**. Variable returns can be only positive, only negative or both positive and negative. It should be noted that the term used is 'returns' and not 'benefits' which are often interpreted as implying only positive returns.

It must also be noted that the term 'returns' includes within its scope both (a) direct returns (which are mostly financial returns), as well as (b) synergistic returns, which are more indirect. Following are some of the examples of variable returns:

Determination of whether a portion of an investee is a deemed separate entity

*Dividends other distributions of economic benefits from an investee (eg interest from debt securities)
Changes in the value of the investor's investment in that investee*

*Remuneration for servicing an investee's assets or liabilities Fees and exposure to loss from providing credit or liquidity support Residual interest in the investee's assets and liabilities on liquidation Tax benefits
Access to future liquidity*

Returns that are not available to other interest holders for example, an investor might use its assets in combination with the assets of the investee such as combining operating functions to achieve economies of scale, cost saving, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor's other assets.

Exposure to variable returns is not in itself enough to conclude the assessment of control. An investor should have power over the investee and the ability to use its power to affect the amount of the investor's returns from its involvement with the investee. For example, it is common for a lender to have an exposure to variable returns from a borrower through interest payments that it receives from the borrower, that are subject to credit risk. However, the lender would not control the borrower if it does not have the ability to affect those interest payments (which is frequently the case).

4.4 REPUTATIONAL RISK

During the financial crisis, some financial institutions provided funding or other support to securitization or investment vehicles because they established or promoted those vehicles. Rather than allowing them to fail and facing a loss of reputation, the financial institutions stepped in, and in some cases took control of the vehicles. Having reputational risk in isolation is not an appropriate basis for consolidation. The term 'reputational risk' relates to the risk that failure of an investee would damage an investee's reputation and, therefore, that of an investor

or sponsor, compelling the investor or sponsor to provide support to an investee in order to protect its reputation, even though the investor or sponsor has no legal or contractual requirement to do so.

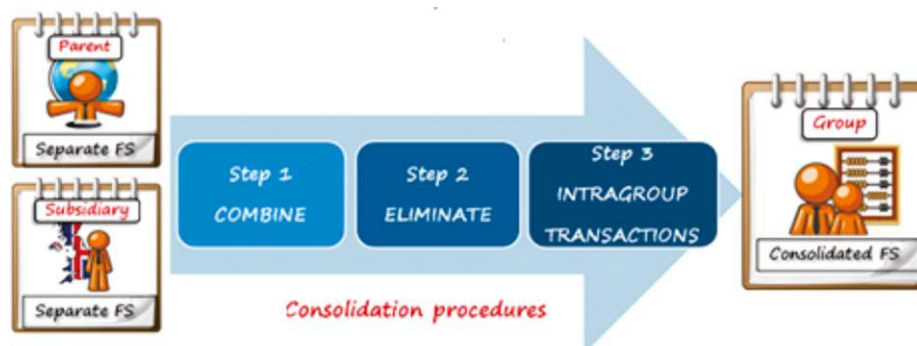
Reputational risk is part of an investor's exposure to risks and rewards, albeit (although) a risk that arises from non-contractual sources. Therefore, when assessing control, reputational risk is a factor to consider along with other facts and circumstances. It is not an indicator of power in its own right, but may increase an investor's incentive to secure rights that give the investor power over an investee.

(5) ACCOUNTING REQUIREMENTS OF INDAS 110

(A) Consolidation procedures

In order to prepare consolidated financial statements, INDAS 110 prescribes the following **consolidation procedures**:

1. **Combine** like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries;
2. **Offset (eliminate)**:
 - The carrying amount of the parent's investment in each subsidiary; and
 - The parent's portion of equity of each subsidiary;
3. Eliminate in full **intra group** assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group.



(B) Other accounting requirements

Except for basic consolidation procedures, INDAS 110 prescribes number of other rules for preparing consolidated financial statements, such as:

- Presentation of **non-controlling interests**: in equity, but separately from the equity of owners of the parent;
- **Uniform accounting policies** shall be used by both parent and subsidiary;
- The financial statements of the parent and the subsidiary shall have the **same reporting date**;
- How to deal when the **parent loses its control** over subsidiary, and number of other rules dealing with the specific circumstances.

Note:

If subsidiary uses a different accounting policy then in every subsequent year, when consolidated financial statement are prepared by parent, adjustments to carrying amount of Assets & Liabilities as presented in standalone financial statement of subsidiary would be required so that in consolidated financial statement all Assets & Liabilities of group are valued using same accounting policies (**no exceptions permitted based on impracticability**)

(6) EXCEPTIONS IN INDAS 110

As we discussed above, when a parent controls a subsidiary, then it should consolidate. But not always..... INDAS 110 sets the following **exceptions from consolidation**:

1. A parent does not need to present consolidated financial statements if it meets all of the following conditions:

- It is a **wholly-owned subsidiary** or is a **partially-owned subsidiary** of another entity and its other owners agree;
- Its debt or equity instruments are **not traded in a public market**;
- It **did not file, nor is it in the process of filing**, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market, and
- Its **ultimate or any intermediate parent** of the holding produces consolidated financial statements available for public use that comply with INDASs.

2. **POST-EMPLOYMENT BENEFIT PLANS OR OTHER LONG-TERM EMPLOYEE BENEFIT PLANS** to which supplies - they don't need to present consolidated financial statements;

Example

Company A has set up an Employee Gratuity Plan trust for the purpose of giving gratuity benefits to its employees. The gratuity benefit given by the company is a post-employee benefit plan which is accounted as per Ind AS 19. So, Company A is not required to evaluate whether it controls the trust and should not consolidate it.

It may be noted that the Indian GAAP (i.e. the accounting standards under The Companies (Accounting Standards) Rules, 2006) contained two exceptions from consolidation, **which are no longer applicable**:

- When control is intended to be temporary; or
- When the subsidiary operates under severe long-term restrictions

3. **INVESTMENT ENTITIES.**

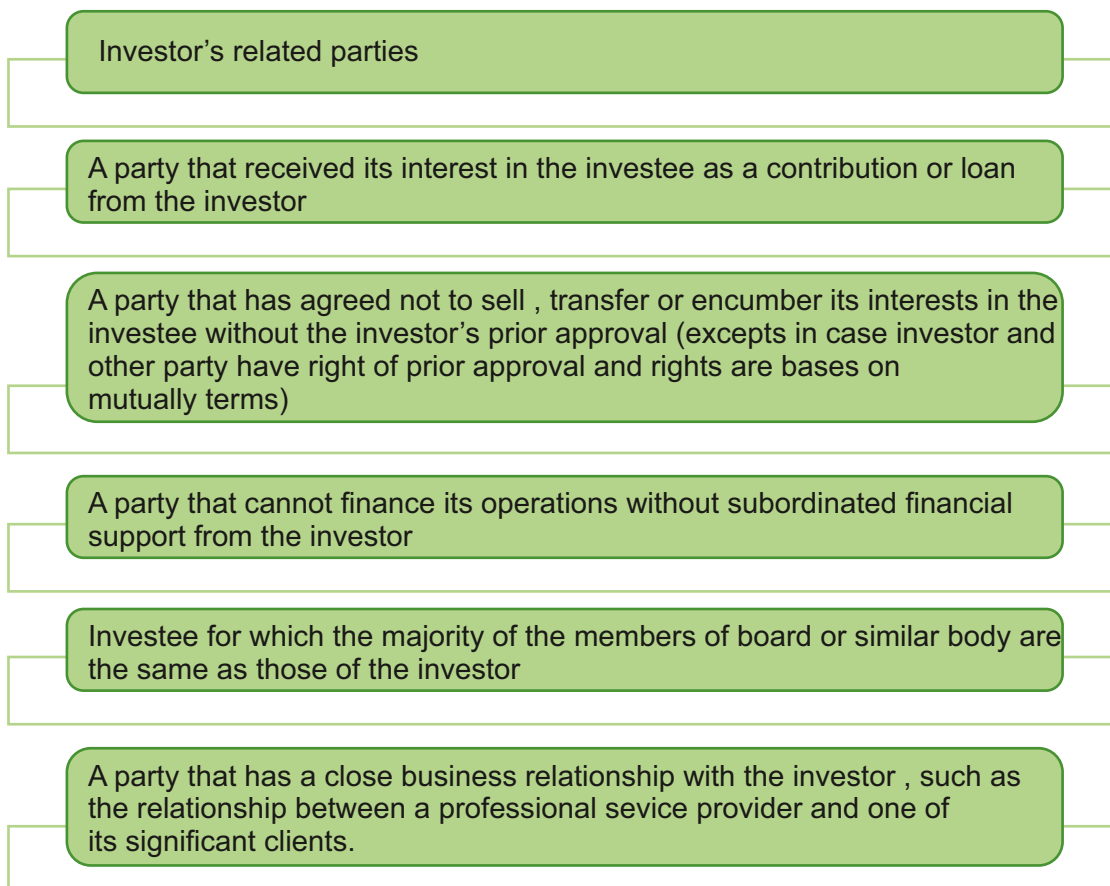
(7) RELATIONSHIP WITH OTHER PARTIES

1. When assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf i.e. they are 'de facto agents' of the investor. The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the investor.
2. A de facto agent relationship does not require a contractual arrangement between the investor and the de facto agent.
3. A party is a de facto agent when the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf.
4. An investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.
5. Further, having a de facto agent does not necessarily mean that the investor controls the investee. The investor still needs to perform the control evaluation as per the detailed guidance discussed above.
6. When assessing control, an investor would consider its de facto agent's decision-making rights and exposure (or rights) to variable returns together with its own as if the rights were held by the investor directly.

Illustration-13

An investor holds 30% voting powers in an investee. One of the fellow subsidiaries of the investor also holds 30% voting powers of the investee. If the investor believes that it has the ability to direct the fellow subsidiary to act on behalf of the investor while exercising its voting rights, then the investor may conclude that the fellow subsidiary is a de facto agent of the investor. Accordingly, investor would be able to control the investee with ability to use 60% of the voting rights. However, in case the fellow subsidiary holds just 10% voting rights of the investee then the investor would not be able to control the investee with just 40% voting rights (30% held by investor itself and 10% owned by de facto agent).

Following are the examples of other parties that, by the nature of their relationship, might act as de facto agents for the investor:



Parties mentioned above are not necessarily de facto agents of the investor. However, the investor needs to evaluate whether the parties following in the above categories are the de facto agents or not.

(8) INVESTMENT ENTITIES

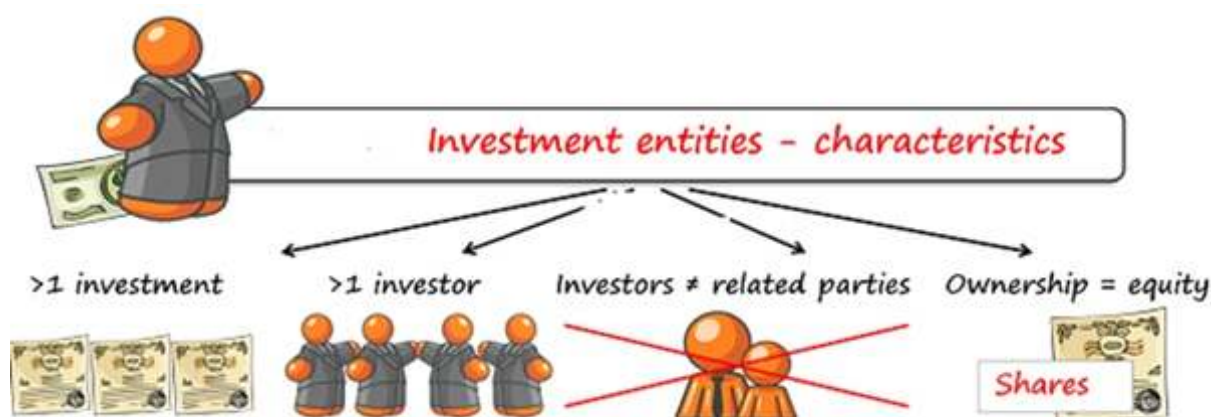
Imp.

Investment entity is an entity that:

1. **Obtains funds from one or more investors** for the purpose of providing those investor(s) with **investment management services**;
2. Commits to its investor(s) that its **business purpose is to invest funds solely for returns** from capital appreciation, investment income, or both, and
3. Measures and evaluates the performance of substantially all of its investments **on a fair value basis**.

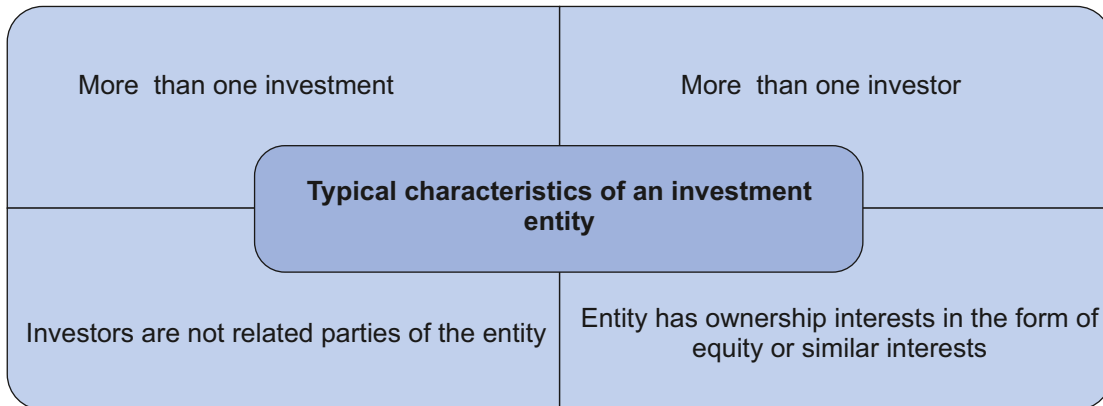
INDAS 110 sets the guidance and rules about determining whether the entity is an investment entity or not. Typical characteristics of investment entities are:

- It has more than one investment;
- It has more than one investor;
- It has investors that are not related parties of the entity;
- It has ownership interests in the form of equity or similar interests.



Most investment entities CANNOT present consolidated financial statements and instead, they need to measure an investment in a subsidiary at fair **value through profit or loss in line with INDAS - 109 Financial Instruments**.

In assessing whether an entity meets the definition of investment entity as above, the entity shall consider whether it has the following typical characteristics of an investment entity:



The absence of one or more of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity but indicates that additional judgment is required in determining whether the entity is an investment entity.

8.1 EXIT STRATEGIES of INVESTMENT ENTITY

One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realize capital appreciation from substantially all of its equity investments and non-financial asset investments.

An investment entity shall also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but shall identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for the purpose of this assessment.

Exit strategies can vary by type of investment:

- For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of a business, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee).
- For equity investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market.
- For real estate investments, an example of an exit strategy includes the sale of the real estate through specialized property dealers or the open market.

An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar business reasons. In this case, the investment entity investor need not have an exit strategy for that investment, provided that the investment entity investee has appropriate exit strategies for its investments.

8.2 EARNINGS FROM INVESTMENTS

To be an investment entity, an entity must commit to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both. An entity is not an investment entity if the entity, or another member of the group containing the entity obtains, or has the objective of obtaining, other benefits from the entity's investments that are not available to other parties unrelated to the investee.

An investment entity may have a strategy to invest in more than one investee in the same industry, market or geographical area in order to benefit from synergies that increase the capital appreciation and investment income from those investees. An entity is not disqualified from being classified as an investment entity merely because such investees trade with each other.

8.3 FAIR VALUE MEASUREMENT

An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results is more relevant information than, for example, consolidating its subsidiaries or using the equity method for its interests in associates or joint ventures. In order to demonstrate that it meets this element of the definition, an investment entity:

1. Provides investors with fair value information and measures substantially all of its investments at Fair Value wherever required by INDAS and;
2. Reports fair value information internally to the entity's key management personnel, who use fair value as the primary measurement for evaluating the performance of all of its investments to make decisions.

In order to meet the requirement of measuring investments at fair value, an investment entity would:

- a) Elect the exemption from applying the equity method in IndAS 28 for its investments in associates and joint ventures; and
- b) Measure its financial assets at fair value using the requirements in IndAS 109.

An investment entity may have some non-investment assets, such as a head office property and related equipment, and may also have financial liabilities. The fair value measurement element of the definition of an investment entity applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

8.4 MORE THAN ONE INVESTMENT

An investment entity typically holds several investments to diversify its risk and maximize its returns. An entity may hold a portfolio of investments directly or indirectly, for example by holding a single investment in another investment entity that itself holds several investments. There may be times when the entity holds a single investment. However, holding a single investment does not necessarily prevent an entity from meeting the definition of an investment entity. For example, an investment entity may hold only a single investment when the entity:

is in its **Start-up period** and has not yet identified suitable investments and, therefore, has not yet executed its investment plan

has **not yet** made other investments to **replace those it has disposed of**

IS **established to pool investors funds** to invest in a single investment when that investment is unobtainable by individual investors (e.g. when the required minimum investment is too high for an individual investor)

is in the process of **liquidation**

8.5 MORE THAN ONE INVESTOR

An investment entity would have **several investors who pool their funds** to gain access to investment management services and investment opportunities that they might not have had access to individually. Having several investors would make it less likely that the entity, or other members of the group containing the entity, would obtain benefits other than capital appreciation or investment income.

Alternatively, an investment entity may be formed by, or for, a **single investor that represents or supports the interests of a wider group of investors** (e.g. a pension fund, government investment fund or family trust).

There may also be times when the entity temporarily has a single investor. For example, an investment entity may have only a single investor when the entity:

- (a) Is within its initial offering period, which has not expired and the entity is actively identifying suitable investors;
- (b) Has not yet identified suitable investors to replace ownership interests that have been redeemed; or
- © Is in the process of liquidation

Unrelated Investors

An investment entity has **several investors that are not related** parties of the entity or other members of the group containing the entity. Having unrelated investors would make it **less likely** that the entity, or other members of the group containing the entity, would **obtain benefits other than capital appreciation or investment income**.

However, an entity may still qualify as an investment entity even though its investors are related to the entity.

For example, an investment entity may set up a separate 'parallel' fund for a group of its employees (such as key management personnel) or other related party investor(s), which mirrors the investments of the entity's main investment fund. This 'parallel' fund may qualify as an investment entity even though all of its investors are related parties.

8.6 EXEMPTIONS TO INVESTMENT ENTITIES

An investment entity shall

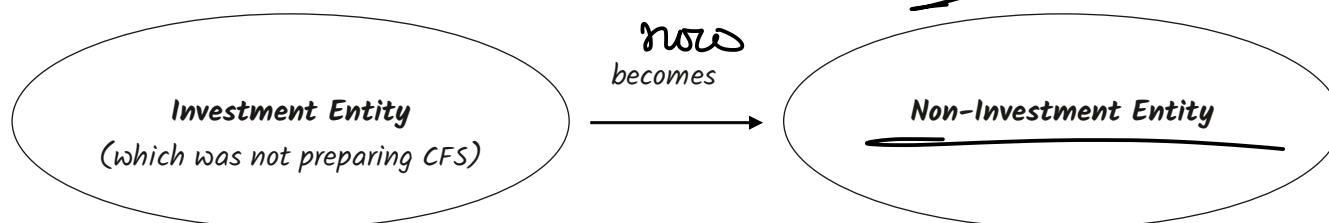
- Not consolidate its subsidiaries or apply IndAS 103 'Business Combinations' when it obtains control of another entity; and
- Measure an investment in a subsidiary at fair value through profit or loss in accordance with IndAS 109.

If an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services related to the investment entity's investment activities, it shall consolidate that subsidiary and apply the requirements of IndAS 103 to the acquisition of any such subsidiary. If the subsidiary that provides the investment-related services or activities is itself an investment entity then the investment entity parent shall measure that subsidiary at fair value through profit or loss.

A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

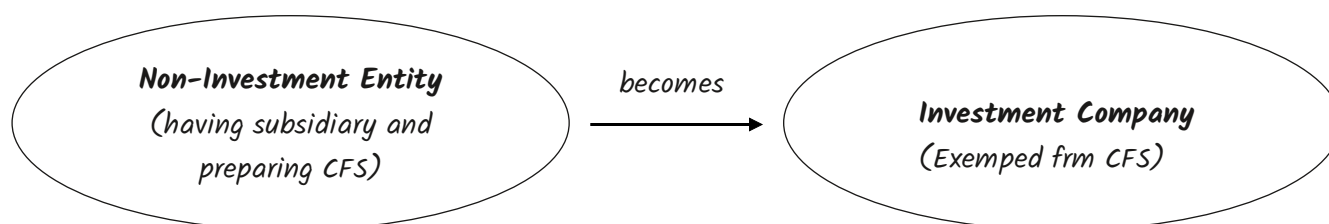
(9) CHANGE IN CLASSIFICATION

Case 1:



- Start Consolidation from the date of change of status when it becomes Non-Investment entity
- Net Assets, NCI and Goodwill/GBP shall be computed on date of reclassification of status

Case 2:



- On the date of change of Status, we have to de-recognize Net Assets of subsidiary, NCI and Goodwill/GBP if any and Investment in Subsidiary shall be recorded at **Fair Value**.

9.1 ACCOUNTING FOR A CHANGE IN INVESTMENT ENTITY STATUS

A parent that either ceases to be an investment entity or becomes an investment entity shall account for the change in its **status prospectively from the date at which the change in status occurred**.

(a) Accounting when an entity ceases to be an investment entity

When an entity ceases to be an investment entity, it shall apply Ind AS 103 to any subsidiary that was previously measured at fair value through profit or loss. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All subsidiaries shall be consolidated in accordance with the consolidation principles discussed above in this unit.

(b) **Accounting when an entity becomes an investment entity**

When an entity becomes an investment entity, it shall cease to consolidate its subsidiaries at the date of the change in status (except for any subsidiary that itself is not an investment entity but provide services related to the investment entity's investment activities. Such subsidiaries shall be continued to be consolidated). The investment entity shall apply the requirements of loss of control explained earlier in previous chapter under INDAS 103 to those subsidiaries that it ceases to consolidate as if the investment entity had lost control of those subsidiaries at that date.

(10) REPORTING PERIOD OF PARENT AND SUBSIDIARY

1. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the **same reporting date**.
2. When the end of the reporting period of the parent is different from that of a subsidiary (e.g. parent's financial year ends on 31 March 20X1 but the subsidiary's financial year ends on 31 December 20X0), the subsidiary prepares, **for consolidation purposes**, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.
3. If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the **most recent financial statements** of the subsidiary adjusted for the **effects of significant transactions or events** that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements **shall be no more than three months**.
4. The length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period. This means that if the financial statements of a subsidiary used for consolidation in previous periods were ending on different dates than that of the parent whereas the financial statements used for current period end on the same date as that of the parent then the comparatives for previous period should be restated to have comparison of equivalent periods.

Example

A Limited, an Indian Company has a foreign subsidiary; B Inc. Subsidiary B Inc. has taken a long-term loan from a foreign bank, which is repayable after the year 20X9. However, during the year ended 31st March, 20X2, it breached one of the conditions of the loan, as a consequence of which the loan became repayable on demand on the reporting date. Subsequent to year end but before the approval of the financial statements, B Inc. rectified the breach and the bank agreed not to demand repayment and to let the loan run for its remaining period to maturity as per the original loan terms. While preparing its standalone financial statements as per IFRS, B Inc. has classified this loan as a current liability in accordance with IAS 1 'Presentation of Financial Statements'.

Whether A limited is required to classify such loan as current while preparing its consolidated financial statement under Ind AS?

Solution:

As per paragraph 74 of Ind AS 1, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

The above position under Ind AS 1 differs from the corresponding position under IAS 1. As per paragraph 74 of IAS 1, when an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the recognized on of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

Accordingly, the loan liability recognized as current liability by B Inc. in its standalone financial statements prepared as per IFRS, should be aligned as per Ind AS in the consolidated financial statements of A Limited and should be classified as non-current in the consolidated financial statements of A Limited in accordance with Ind AS 1.

(11) ALLOCATING SHARE IN PROFIT / LOSS TO NON-CONTROLLING INTEREST

A parent shall present non-controlling interests in the consolidated balance sheet within equity, separately from the equity of the owners of the parent.

An entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The entity shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(12) CONTROL OF SPECIFIED ASSETS

An investor shall consider whether it treats a portion of an investee as a deemed separate entity and, if so, whether it controls the deemed separate entity. A deemed separate entity is often called a 'silo'.

An investor shall treat a portion of an investee as a deemed separate entity if and only if the following condition is satisfied:

Determination of whether a portion of an investee is a deemed separate entity

specified assets of the investee (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interest in, the investee.

Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from the assets.

In substance, more of the returns from the specified assets can be used by the remaining investee and none of the liabilities if the deemed separate entity are payable from the assets of the remaining investee.

Thus, in substance, all the assets, liabilities and equity of that deemed separate entity are **ring-fenced** from the overall investee.

For example, an investee is a mutual fund and under the investee there are multiple sub-funds established with different investment objectives like debt-oriented funds, equity-oriented funds, etc. In such case, an assessment should be made as to whether the sub-funds are deemed separate entities as per the conditions mentioned above.

When the conditions mentioned above are satisfied, an investor shall assess **whether it controls the silo** by applying the guidance of control evaluation i.e. whether the investor has power over the silo, exposure or rights to variable returns from involvement with silo and whether it can use that power to affect the returns of the silo.

If the investor controls the silo, the investor shall consolidate that silo. In that case, other parties exclude that silo when assessing control of, and in consolidating, the investee.

For example, continuing with the above example on identification of a silo, if one of the sub-funds is treated as a silo then the investor that controls that silo will consolidate that sub-fund. Other parties who control other sub-funds will exclude the sub-fund controlled by the investor in their control evaluation and consolidation.

Example

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

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

Solution:

As per para B15 of Ind AS 103, in a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including:

The relative voting rights in the combined entity after the business combination - The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity.

Based on above mentioned para, acquirer shall be the either of the combining entities (i.e. Veera Limited or Zeera Limited) whose owners as a Group retain or receive the largest portion of the voting rights in the combined entity.

Hence in the above scenario Veera Limited shareholder gets 67% Share $[(100/150) \times 100]$ and Zeera Limited shareholder gets 33.33% share in Meera Limited. Hence Veera Limited is acquirer as per the principles of Ind AS 103.

Student Notes:-

