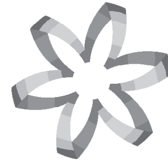

SUPPLEMENTARY

PAPER - 17

FOR DECEMBER 2018 EXAMINATION

Ind AS - 103 : Business Combinations [Part - A]

Ind AS 103: Business Combination

Part - A

1. A business combination is a transaction or other event in which an acquirer obtains **control** of one or more **businesses**.

2. Objective: The objective of this Indian Accounting Standard is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

3. Accounting and reporting is made under Acquisition Method. [There is another method of accounting for business combination under Common Control where no change in control takes place for the transaction. We shall discuss it later.]

Under Acquisition Method the acquirer —

(a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

- Based on Recognition principle:
  - must meet definition of assets or liabilities at acquisition date.
  - must be exchanged as part of acquisition.
  - recognise even those assets or liabilities which were not recognised by the acquiree.
- Based on Measurement principle:

  The acquirer shall measure the —
  - identifiable assets acquired and the liabilities assumed at their acquisition-date **fair values**.
  - Non-controlling interest at its **fair value** at the acquisition date or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

(b) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase;

Acquirer shall recognise —

- Goodwill on the acquisition date as excess of (A) over (B) and
- Gain from bargain purchase as excess of (B) over (A) as stated below :

(A) The aggregate of

- Fair value of consideration transferred.
- Recognised amount of any NCI in acquiree.
- Fair value of any previously held equity interest in the acquiree (for a business combination achieved in stages).

(B) Net of acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

(c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

4. When Acquiree Company ceases to exist due to business combination the accounting will be reflected on the stand alone balance sheet of the acquirer company. But when Acquiree Company exists (i.e., Non-Controlling Interest exists) after business combination, accounting for business combination will reflect on consolidated balance sheet. In such cases reference to both Ind AS 103 and Ind AS 110 is made for consolidation.

5. For practice let us have some illustrations to see how the principles and requirements are applied.

Illustration 1.

A Ltd. acquires 100% of B Ltd. for ₹9,60,000. Fair Value (FV) of B's net assets at time of acquisition amounts ₹ 8,00,000.

Required:

1. Calculate Goodwill.
2. Journal Entries in the books of A.

Answer:

Purchase consideration ₹ 9,60,000
FV of Net Assets ₹8,00,000

Goodwill = Consideration – Net Assets = ₹ (9,60,000– 8,00,000) = ₹1,60,000

Journal entry

Particulars		Dr. (₹)	Cr. (₹)
Net assets A/c	Dr.	8,00,000	
Goodwill A/c	Dr.	1,60,000	
To, Consideration A/c			9,60,000

Illustration 2.

On March 31, 201X, K Ltd. acquired L Ltd. K Ltd. issued 60,000 equity shares (₹10 par value) that were trading at ₹240 on March 31. The book value of L Ltd.'s net assets was ₹72,00,000 on March 31. The fair value of net assets was assessed at ₹1,35,00,000.

Show acquisition journal entry under Ind AS 103.

Answer:

Journal Entry

Particulars		Dr. (₹)	Cr. (₹)
Net assets A/c	Dr.	1,35,00,000	
Goodwill A/c	Dr.	9,00,000	
To, Consideration A/c			1,44,00,000
Consideration A/c	Dr.	1,44,00,000	
To, Equity Share Capital A/c			6,00,000
To, Additional paid-in capital			1,38,00,000

Illustration 3.

A Ltd. acquires 80% of B Ltd. for ₹9,60,000 paid by equity at par. Fair Value (FV) of B's net assets at time of acquisition amounts ₹ 8,00,000.

Required:
1. Calculate Non-Controlling-Interest (NCI) and Goodwill.
2. Journal Entries in the books of A.

Answer:

Purchase consideration ₹ 9,60,000
FV of NCI = ₹9,60,000× (20%/80%) = ₹ 2,40,000
FV of Net Assets ₹8,00,000

Goodwill = Consideration + NCI – Net Assets = ₹ (9,60,000 + 2,40,000 – 8,00,000) = 4,00,000

Journal Entry

Particulars		Dr. (₹)	Cr. (₹)
Net assets A/c	Dr.	8,00,000	
Goodwill A/c	Dr.	4,00,000	
To, Consideration A/c			9,60,000
To NCI A/c			2,40,000
Consideration A/c	Dr.	9,60,000	
To, Equity Share Capital A/c			9,60,000

Illustration 4.

Z Ltd. acquired a 60% interest in P Ltd. on January 1, 2017. Z Ltd. paid ₹700 Lakhs in cash for their interest in P Ltd. The fair value of P Ltd.'s assets is ₹1,800 Lakhs, and the fair value of its liabilities is ₹900 Lakhs. Provide the journal entry for the acquisition using Ind AS, assuming that P Ltd. does not wish to report the NCI at fair value.

Answer:

Journal Entry

Particulars		Dr. (₹ in Lakhs)	Cr. (₹ in Lakhs)
Acquired assets A/c	Dr.	1,800	
Goodwill A/c	Dr.	160(2)	
To, Consideration A/c			700
To Acquired liabilities			900
To Non-controlling interests (NCI)A/c			360(1)
Consideration A/c	Dr.	700	
To, Cash A/c			700

Workings:

(1) NCI = 40% x ₹(1,800 – 900)= ₹360 Lakhs

(2) Goodwill = ₹700 – ₹(1,800 – 900 – 360)= ₹160 Lakhs.