Accounting for Business Combinations – Ind AS perspective

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Agenda

- Scope and definitions
- Acquisition accounting
- Common control business combinations
- Key differences between AS 14, Accounting for Amalgamations and Ind AS 103 Business Combinations

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- **Scope and definitions**
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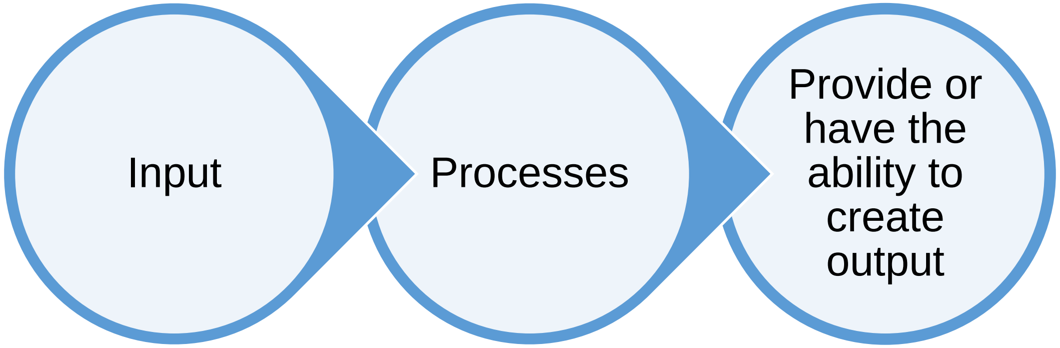
Business

- A **business** is an integrated set of activities and assets that is capable of being conducted or managed for the purpose of providing return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.



Business combination

- **Business combination**
- Transaction or other event
- Acquirer obtains control of one or more businesses

- Transactions sometimes referred to as '**true mergers**' or '**mergers of equals**' are also business combinations as that term is used in this Ind AS

- If an entity **acquires an asset or a group of assets**, including any liabilities assumed, that does not meet the definition of a business, then the transaction is **not a business combination**

Scope

- **Ind AS 103 Business Combinations is applicable to all business combinations**
- (Including common control business combinations) **– Carve in from IFRS 3 Business Combinations**

- **Business combinations does not apply to**
- Formation of joint arrangement
- Acquisition of asset or a group of assets that does not constitute a business

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Overview of the acquisition method

Goodwill = **Considera-tion transferred** + **Non-controlling interest (NCI)** − **Fair value of net identifiable assets**

Option to measure NCI at acquisition date

Steps to acquisition accounting

Step 1: Identify the acquirer
Step 2: Determine the acquisition date
Step 3: Identify and measure consideration transferred
Step 4: Identify and measure identifiable net assets
Step 5: Measure non-controlling interest (NCI)
Step 6: Determine goodwill or gain on a bargain purchase
Step 7: Recognise any measurement period adjustments

Step 1: Identify the acquirer

The *acquirer* is the entity that obtains control of the business

Use Ind AS 110 to determine who has control

Consider additional factors identified in Ind AS 103

- Relative voting rights in combined entity
- Existence of large minority voting interest in combined entity
- Composition of governing body of combined entity
- Composition of senior management of combined entity
- Terms of exchange of equity instruments

Step 2: Determine the acquisition date

The *acquisition date* is the date on which acquirer obtains control of acquiree

Date on which fair values of identifiable assets acquired and liabilities assumed determined and goodwill is measured

Date from which comprehensive income of is included in consolidated financial statements of acquirer

Agreement with retrospective effect could be a challenge to determine acquisition date

Step 3: Identify and measure consideration transferred

Consideration transferred is measured at *fair value* at the acquisition date, and includes:

- **Assets transferred**
- **Liabilities incurred to previous owners**
- **Equity instruments issued**

Acquisition-related costs excluded from consideration transferred, and **expensed as incurred**

Costs related to issue of equity or debt recognised in accordance with financial instruments standards

Contingent consideration

Contingent consideration **is obligation of acquirer to transfer additional assets / equity interests to former owners as part of exchange for control if specified future events occur/ conditions are met**

Recognised at fair value at acquisition date

Classified as liability or equity according to Ind AS 32 or relevant Ind ASs

<u>Subsequent measurement</u>

- Profit / loss if classified as a liability / asset
- No remeasurement if classified as equity

Step 4: Measure identifiable net assets

Recognition

- Must meet definition of asset/liability at acquisition date
- Must be exchanged as part of acquisition
- Contingent liability (exception)
- Consider deferred tax impact

Measurement

- Measured at fair value at acquisition date

Intangible assets (1/2)

All *identifiable* intangible assets recognised separately from goodwill

Separable

or

Arises from contractual or other legal rights

Intangible assets (2/2)

Marketing related

In-process research and development

Customer-related

Technology-based

Artistic-related

Contract-based

Step 5: Measure NCI

NCI are measured either at:

- **Their proportionate interests in fair value of identifiable net assets**
- **Fair value (FV)**
  - **Allowed only on acquisition date**

Election made on a transaction-by-transaction basis

Step 6: Determine goodwill or gain on bargain purchase

Option 1: NCI measured at fair value

Goodwill = Considera-tion transferred + NCI at FV − Fair value of net identifiable assets

Option 2: NCI measured at their proportionate interest in identifiable net assets

Goodwill = Considera-tion transferred + NCI based on net assets − Fair value of net identifiable assets

Gain on bargain purchase

The acquisition equation results in a gain on bargain purchase

Reassess identification and measurement

Recognise in OCI and accumulate in capital reserve

Carve out from IFRS 3 Business Combinations

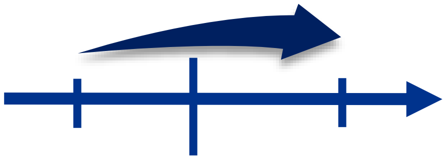
Step 7: Recognise any measurement period adjustments

***Measurement period* is period after acquisition date when entity can adjust preliminary business combination accounting**

- If new information obtained about facts and circumstances that existed at acquisition date
- Ends when information obtained or determined not available
- Cannot exceed one year

Step acquisitions

Step acquisitions



Previously owned ownership interest revalued at fair value through profit or loss / OCI

Equation in a step acquisition

+ Fair value of consideration transferred

+ Recognised amount of NCI in acquiree

+ **Fair value of any previously held equity interest in acquiree**

− Fair value of net identifiable assets

= + Goodwill | − Gain on bargain purchase

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Common control business transactions

- Common control business combination means a business combination involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties **before** and **after** the business combination, and that control is not transitory.

- Common control business combinations are accounted for using '***pooling of interest method***'.

- The financial information for prior periods is restated as if the business combination had occurred from the beginning of the preceding period.

Ind AS 101: First-time adoption of Ind AS

- **Business combinations** that occurred before the date of transition to Ind AS, entities have the following options:

- Restate all business combinations; or

- Do not restate any business combinations prior to the date of transition; or

- Restate all the business combinations after a particular date but before the date of transition.

Q & A session

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Differences between Indian GAAP & Ind AS

Particulars	Indian GAAP	Ind AS
Scope – Business combinations	No comprehensive guidance dealing with all business combinations.	Applies to a transaction or other event in which an acquirer obtains a control of one or more businesses, including common control business combinations.
Acquisition date	The effective date as per scheme of amalgamation will be the date of filing of Court order sanctioning the scheme with statutory authorities. In case the appointed date is prior to the effective date, the amalgamation is accounted on the effective date with effect from the appointed date.	The date on which acquirer obtains control of the acquired entity is the acquisition date.
Non-controlling interest	Currently, minority interest is measured at proportionate share in the book values of the net assets of the company.	IFRS requires the non controlling interest to be measured on the acquisition date at either its fair value or proportionate share of the fair value of the acquired company’s identifiable net assets. This choice can be applied on a case by case basis only on the date of acquisition.
Subsequent measurement of goodwill	Goodwill arising on amalgamation is amortised over a period not exceeding 5 years.	Goodwill is not amortised but tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate impairment.

Differences between Indian GAAP & Ind AS

Particulars	Indian GAAP	Ind AS
Purchase and pooling of interest method	Amalgamations are accounted for by applying either the purchase method or the pooling of interest method.	Business combinations should be accounted under acquisition method. Pooling of interest method is applied for common control business combinations.
Gain on bargain purchase	Recognised in capital reserve under equity.	Recognised in OCI and accumulated in capital reserve.
Contingent / Deferred consideration	Contingent consideration is not recognised. Deferred consideration is recognised at transaction value.	Contingent / Deferred consideration is recognised under IFRS at fair value.
Acquisition related costs	No guidance.	Recognised in statement of profit and loss as and when expenses are incurred.
Contingent liabilities	Contingent liabilities are not recognized.	The acquiree's contingent liabilities are recognized as actual liabilities by the acquirer at the acquisition date as part of acquisition accounting, if they are present obligation arising from past events and their fair values can be measured reliably.
Step acquisitions of subsidiary	AS 21 recognizes step acquisitions; however at each step, the valuation is done on the basis of book values rather than fair values.	At the date of obtaining control, the acquirer re-measures any previously held equity interest to fair value and recognizes any resulting gain/loss in profit or loss for the period.

Differences between Indian GAAP & Ind AS

Particulars	Indian GAAP	Ind AS
Reverse acquisitions	Acquisition accounting is based on legal form. Legal acquirer is treated as acquirer and legal acquiree is treated as acquiree for legal as well as accounting purposes.	Acquisition accounting is based on substance. Accordingly, in a reverse acquisition, a legal acquirer may be treated as acquiree and legal acquiree may be treated as acquirer for IFRS 3 purposes.
Subsequent adjustments to assets and liabilities	No subsequent adjustment to assets and liabilities is permitted, except for certain deferred tax adjustment.	If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the financial statements are prepared using provisional amounts for the items for which the accounting is incomplete. IFRS 3 permits adjustments to items recognized in the original accounting for a business combination, for a maximum of one year from the acquisition date, where new information about facts and circumstances existing at the acquisition date is obtained. Any such adjustments are made retrospectively as if those adjustments had been made at the acquisition date.

Thank you

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