



LIVE COACHING CLASSES BOARD OF STUDIES (A), ICAI

CA FINAL PAPER 1: FINANCIAL REPORTING

TOPIC: IND AS 103 - BUSINESS COMBINATION

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Topics to be Covered

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WHAT IS BUSINESS COMBINATION?



Merger in All-Stock Deal with
Share Swap Ratio of 4.39:1



Image Source: Company Website



GSK Consumer Healthcare Ltd. acquired by HUL



Vodafone India amalgamating
with Idea Cellular to form
Vodafone Idea Ltd.



L&T acquiring a controlling
stake in Mindtree

A Business Combination occurs when an entity acquires control over a business. Therefore, in order to be covered under Ind AS 103, the following factors are essential: (a) Business, and (b) Control



WHAT IS A BUSINESS?

BUSINESS: Integrated set of **activities and assets (INPUTS)** capable of being managed in a **particular manner (PROCESSES)** in order to **generate returns (OUTPUTS)** to the owners



BUSINESS =

INPUTS



Could be Property,
Plant and Equipment
or intangible assets or
Right-of-use Assets,
that may be complete
or under development
along with a workforce

PROCESSES



Any system, standard,
rules, procedures etc.
which when applied to
inputs, creates output,
or has the ability to
contribute to
generation of output



Processes would normally mean the **core operating processes** which have the ability to generate revenue e.g. manufacturing processes. Ancillary processes such as accounting, billing, payroll etc. would not be considered to constitute business as they may not contribute to the generation of outputs

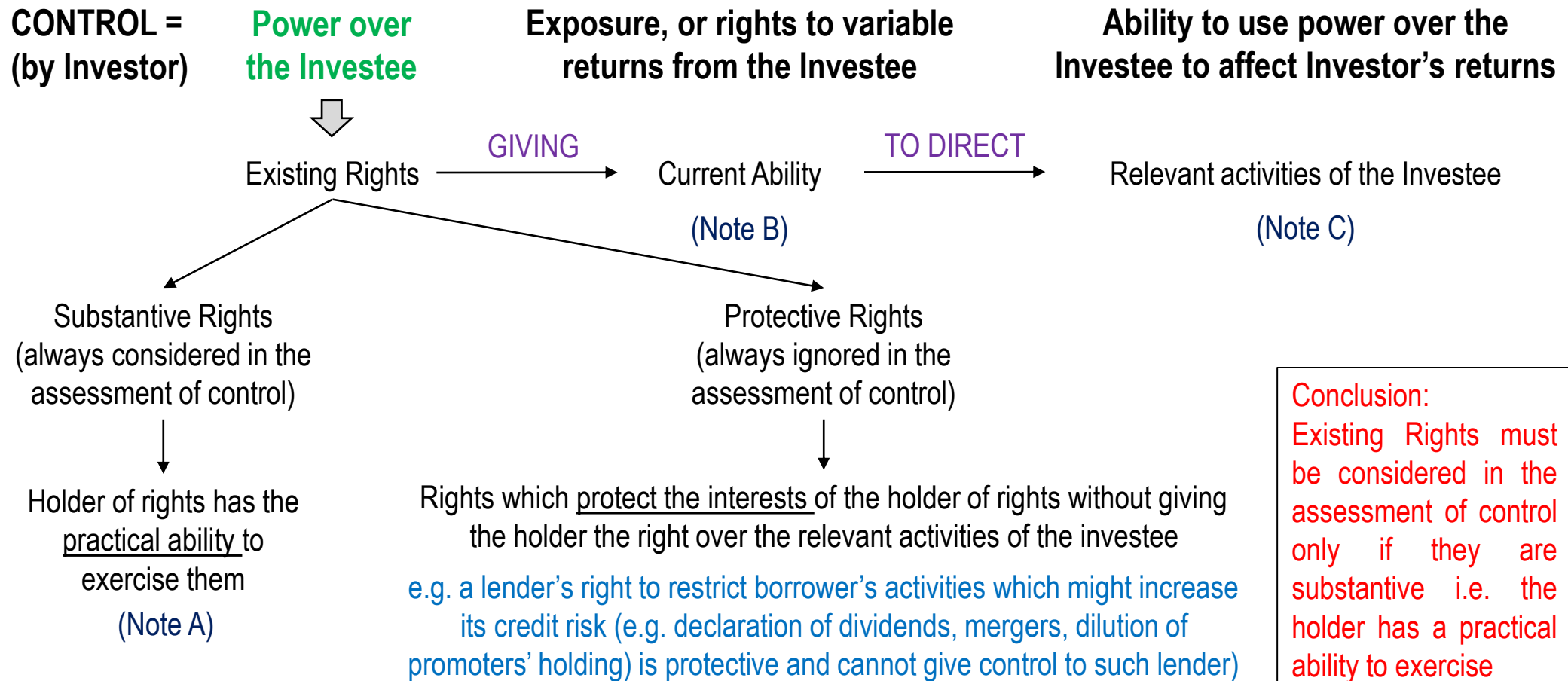
OUTPUTS



Ability to generate
revenue should exist.
Actual revenue may
be generated in the
future



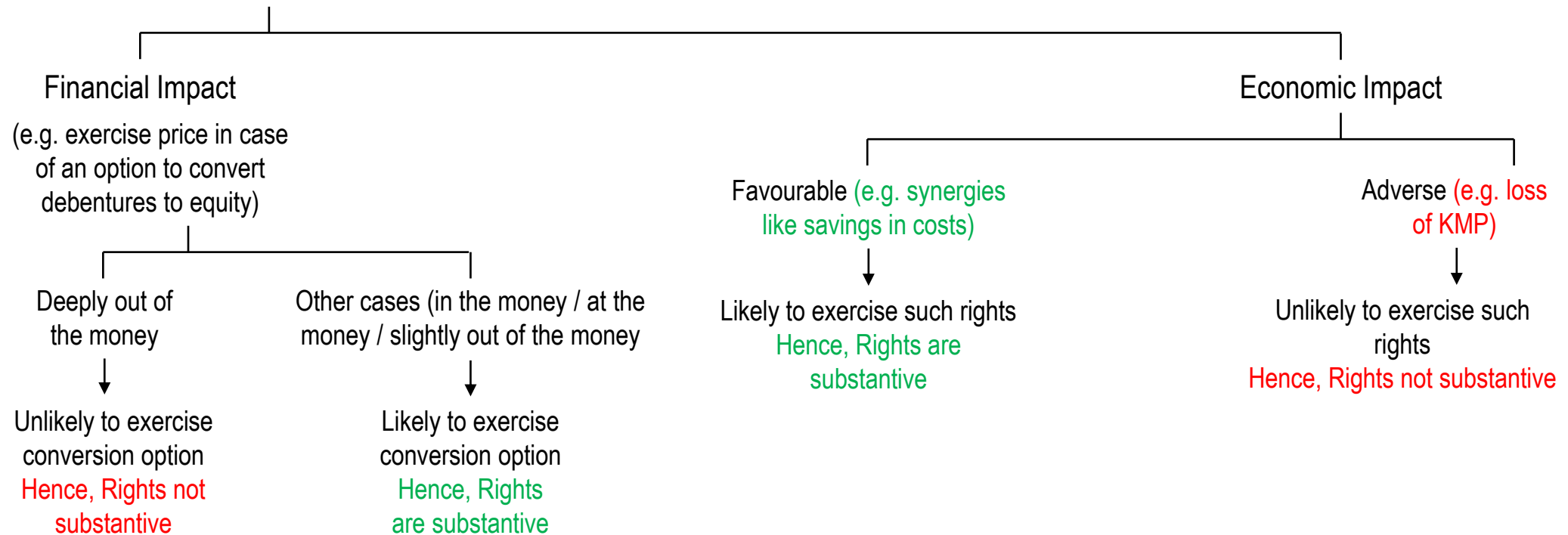
WHAT IS CONTROL?





WHAT IS CONTROL?

Note A: Practical Ability to Exercise





WHAT IS CONTROL?

Note B: Current Ability

The rights must be exercisable at the time of assessment of control i.e. before the decisions on relevant activities are taken e.g. a debenture convertible after 5 years does not give a current ability, whereas a debenture convertible at any time indicates current ability exists.

Note C: Relevant Activities

- Operating and Financing Activities that significantly affect the returns of the company
- Requires judgment in identifying relevant activities
- Where multiple investors have rights over multiple relevant activities, the entity would generally be under joint control



SCOPE EXCLUSIONS FROM IND AS 103

ASSET ACQUISITIONS

Asset purchases that do not constitute a business (including group asset purchases) are excluded from Ind AS 103. Such asset purchases are accounted under Ind AS 2 / Ind AS 16 / Ind AS 38 / Ind AS 40 / Ind AS 109 etc. whereas business purchase is to be recorded as per Ind AS 103. The differences in such accounting are highlighted below:

Particulars	Business Purchase	Asset Purchase
Initial Recognition	At Fair Value	At Cost
Transaction Cost	Expensed to P/L	Generally capitalized unless otherwise specified in the applicable Ind AS
Goodwill	Recorded	Not recorded

JOINT ARRANGEMENTS

Entities where there is joint control would be accounted as per Ind AS 111, Joint Arrangements



FORMS OF BUSINESS COMBINATIONS

Nature of Transaction	Description	Implication on Financial Statements
Amalgamation	Two or more companies combining to form a new company. In other words, the transaction involves two or more liquidations and one incorporation.	Assets and liabilities of selling company are transferred to purchasing company. The selling company ceases to exist after the acquisition. In the acquiring company's books, assets and liabilities of the company taken over will be recorded. Thus, preparation of Consolidated Financial Statements will not arise, since the selling company itself ceases to exist.
Absorption	One or more companies are acquired by another company. In other words, the transaction involves one or more liquidations, and generally no incorporation.	
Acquisition of Division (excluding demergers, covered separately)	Sale of group of assets and liabilities of one division (e.g. a slump sale) to another company. Thus, there are no liquidations, no incorporations involved.	In the acquiring company's books, assets and liabilities of the division taken over will be recorded. Here also, preparation of Consolidated Financial Statements will not arise.
Acquisition of a Subsidiary	One company (parent) acquires a controlling stake in another company (subsidiary). Thus, there are no liquidations and no incorporation.	Acquisition of controlling stake is treated as purchase of Investment (financial asset) in the financial statements of the acquiring company, and hence Ind AS 109* will apply in the standalone financial statements. However, the acquisition of the subsidiary will be treated as a business purchase in the Consolidated Financial Statements, and hence Ind AS 103 will apply in the Consolidated Financial Statements.



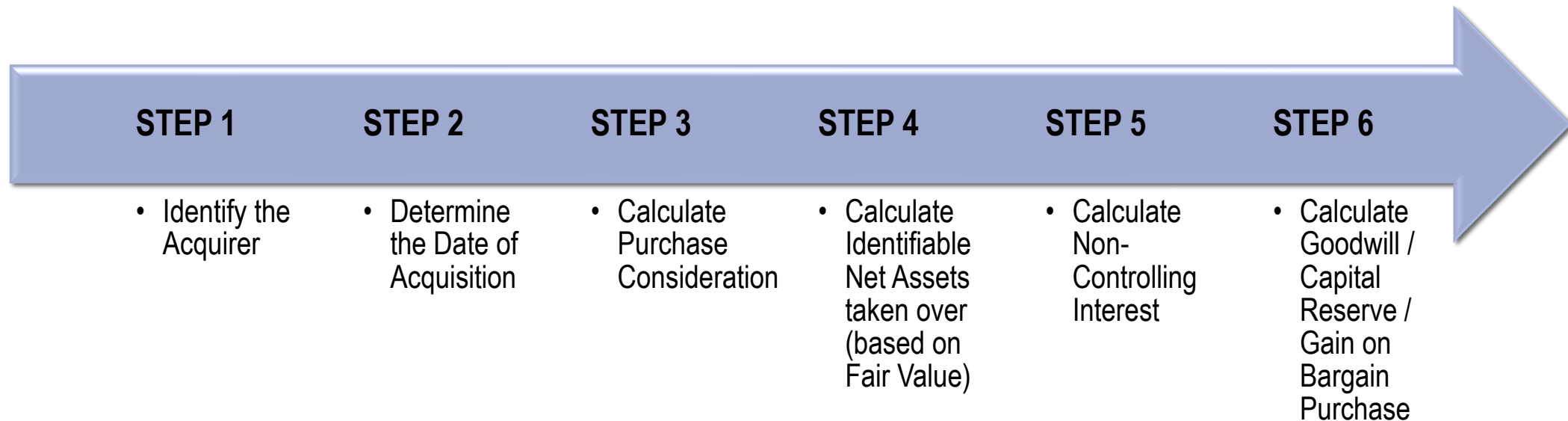
FORMS OF BUSINESS COMBINATIONS

Nature of Transaction	Description	Implication on Financial Statements
Acquisition of a Subsidiary (continued)	-----	* As per Ind AS 27, Separate Financial Statements, there is a choice whereby Investment in Subsidiary / Associate / Joint Venture can be recorded in the standalone financial statements either: (i) at cost, or (ii) as per Ind AS 109 (FVTPL / FVTOCI) Every question solved in the study material / RTP regards Investment in Subsidiary / Associate / Joint Venture recorded at cost, unless otherwise mentioned, in the standalone financial statements.



ACCOUNTING FOR BUSINESS COMBINATION

The 6-Step Model: Acquisition Method under Ind AS 103



Similar to the Purchase Method prescribed under AS 14!!



Step 1: Identify the Acquirer

The acquirer is the entity which obtains control post the Business Combination. In most cases, the entity paying the Purchase Consideration is the acquirer. The following aspects would be considered while identifying the acquirer:

- (i) The relative voting rights in the combined entity post the Business Combination: The acquirer's shareholders would usually own a larger proportion of the voting rights.
- (ii) The composition of the Board / Senior Management post the Business Combination: Usually, the Senior Management of the acquirer would take key management roles in the combined entity.

Reverse Acquisition: A rare transaction

In case of such transactions, the legal acquirer would be regarded as the accounting acquiree whereas the legal acquiree would be treated as the accounting acquirer, keeping in mind the substance-over-form presentation.

Under a reverse acquisition, the control of the legal acquirer is lost whereas the legal acquiree continues to be ultimately controlled by the same shareholders and hence there is no loss of control.

Refer Solution to Q. No. 65 already uploaded. (Lecture Reference: Recorded session dated 3 September, 2021)



Step 2: Determine the Date of Acquisition

It is the date when the acquirer obtains control over the acquiree.

- (i) In most cases, the acquisition date is the date when the acquirer pays the purchase consideration and acquires the net assets (academically, the closing date). This is the date when the acquirer will get a current ability to direct the relevant activities of the acquiree. The dates of the Letter of Offer, Board Approval, Shareholders' Approval etc. are irrelevant.
- (ii) However, if the parties separately agree to an earlier / later date at which control would be transferred (e.g. through offering Board Representation), then such mutually agreed date would be the date of acquisition.
- (iii) The date when dividend starts accruing or the date when net assets are used as a basis for determining the purchase consideration are irrelevant as these aspects are merely procedural and do not necessarily signify the transfer of control.
- (iv) Acquisition subject to Regulatory Approval / Process:

Where such regulatory approval is **substantive**, the date of acquisition is the date of regulatory approval or thereafter

Where such regulatory approval is **procedural**, the date of acquisition is as mentioned in Points (i) to (iii) above



Step 2: Determine the Date of Acquisition

Step-up Acquisition:

Where shares are acquired on several dates, then the date of acquisition is the date when the control is acquired, which would usually be the date when the cumulative stake in the acquiree would give control, which is generally a stake greater than 50% cumulatively e.g.

Date	Stake Acquired	Cumulative Stake
1 April 20X2	15%	15%
1 April 20X5	25%	40%
1 April 20X8	35%	75%
1 April 20X9	15%	90%

Since the cumulative stake exceeds 50% on 1 April 20X8, the date of acquisition is 1 April 20X8. Thus Ind AS 103 would be applicable on 1 April 20X8.



Step 3: Calculate Purchase Consideration

As per Ind AS 103, Purchase Consideration (PC) refers to the fair value of the consideration which is agreed to be [paid to the owners of the selling company](#).

Under Ind AS, owners refer to the instruments which are classified as equity (Equity Capital / Other Equity) and are not limited to only shareholders. Thus, payments made to preference shareholders classified as financial liabilities in line with Ind AS 109 would not be a part of PC. The calculation of PC can be presented as follows:

Cash paid	xxx
Add: Fair Value of Shares / Debentures / Other Securities issued	xxx
Add: Fair Value of Assets (other than cash) transferred (Note 1)	xxx
Add: Present Value of Deferred Consideration (Note 2)	xxx
Add: Fair Value of Contingent Consideration (Note 3)	xxx
Add: Fair Value of Pre-Combination Allocation in case of Replacement Awards (Note 4)	xxx
Purchase Consideration (assuming no existing stake and 100% acquired in single transaction)	xxx
Add: Fair Value of existing investment on Date of Acquisition (Note 5)	xxx
Purchase Consideration (after considering existing stake)	xxx



Step 3: Calculate Purchase Consideration

Note 1: Fair Value of non-cash Assets transferred as PC

1. Assets intended to be transferred should be remeasured at Fair Value in the books of the acquirer. Any difference arising on such remeasurement should be taken to the P/L (and not the Revaluation Reserve), since such assets are being transferred, it is similar to a sale of asset, and not revaluation.
2. The remeasured assets at fair value would be considered for PC calculation.

Note 2: Present Value of Deferred Consideration:

Deferred Consideration refers to PC payable in cash at a future date. Since such payment is payable in the future, a part of it is attributable to the business and a part of it is attributable to time. Therefore, on the date of acquisition, the **deferred consideration is measured at present value and this amount should be included as a part of PC.**

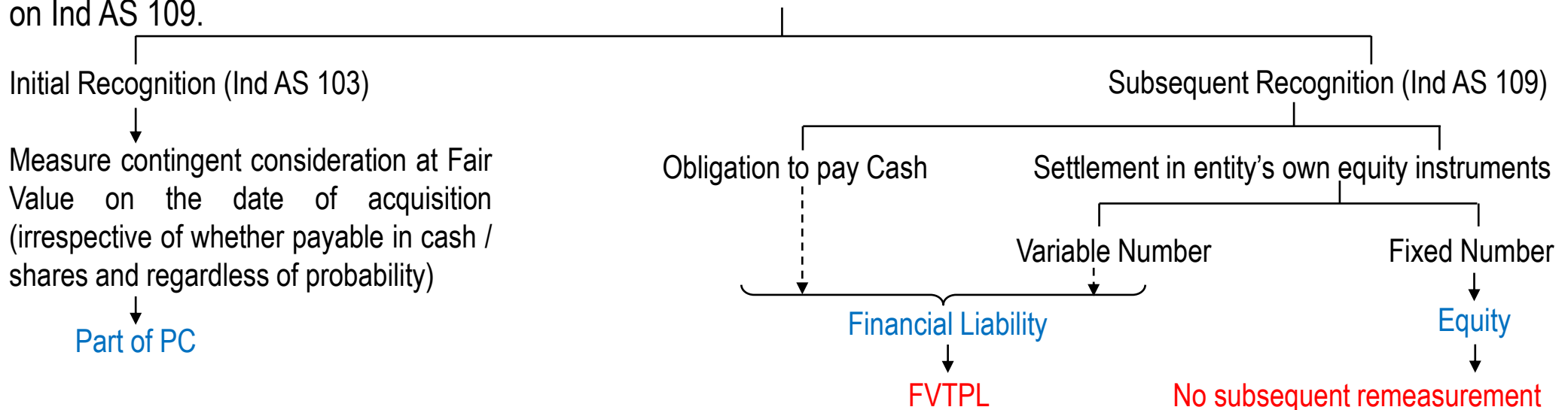
Subsequently, such Deferred Consideration, which would be classified as a financial liability (as there is an obligation to deliver cash) would be accounted as per amortized cost principles under Ind AS 109. The finance cost element would be expensed to the P/L over the period.



Step 3: Calculate Purchase Consideration

Note 3: Contingent Consideration

It refers to a conditional obligation to be settled at a future date based on the outcome of certain future events. Contingent Consideration should be considered as a part of PC on the date of acquisition at its fair value. Generally, the fair value would be given in the question. Where such fair value is not given, it can be calculated as a probability-based weighted average value of the expected payments, which would then be discounted to reflect the present value of the expected value. After the date of acquisition, the accounting for contingent consideration would be based on Ind AS 109.





Step 3: Calculate Purchase Consideration

Note 4: Fair Value of Replacement Awards

Pre-combination Allocation (Ind AS 103)

Allocated amount* would be regarded as a part of PC, since it would be paid to the employees in the capacity of owners of the company

↓

Net Assets of S Ltd.	Dr. xxx
Goodwill A/c	Dr. xxx
To Eq. Share Capital / Cash	xxx
To SBP Reserve	xxx

* Pre-combination Allocation =

Fair Value of Original Award on the Date of Acquisition $\times$ $\frac{\text{Vesting Period Served}}{\text{Longer of Original Vesting Period OR Total Revised Vesting Period}}$

Post-combination Allocation (Ind AS 102)

↓

Allocated amount* is calculated as balancing figure i.e., Fair Value of Replacement Award (-) Pre-Combination Allocated amount

↓

Recorded as remuneration cost / employee benefit expenses and should be transferred to the P/L over the remaining vesting period
[Attributable to the service rendered by the employee over the post-acquisition period]

↓

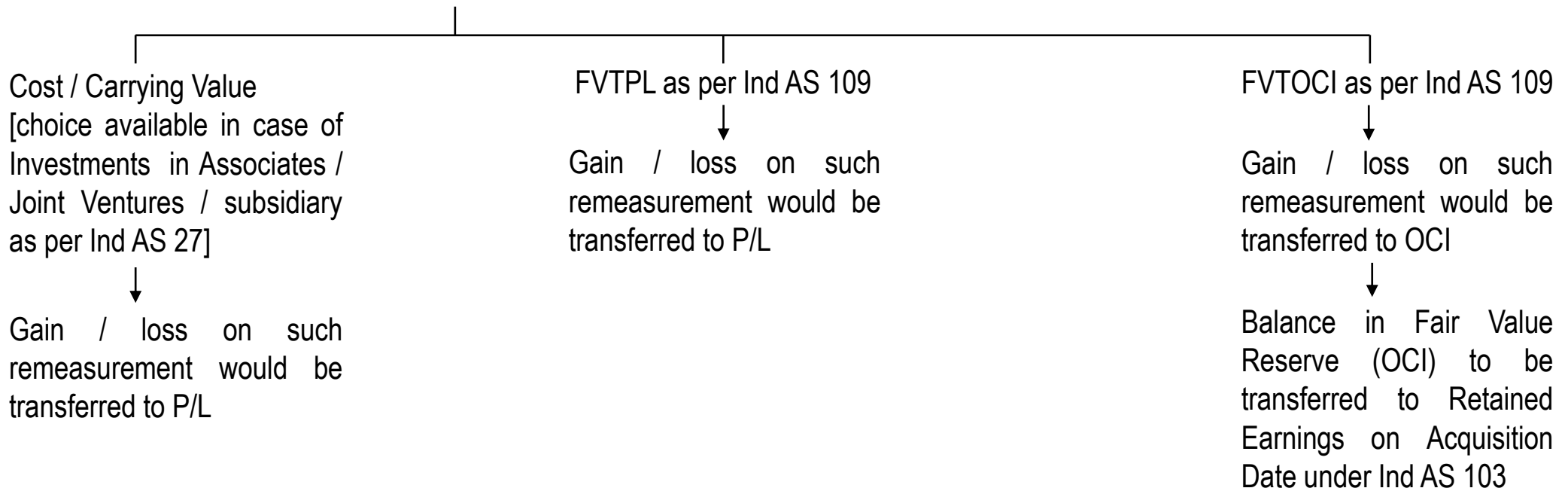
Remuneration Cost / Emp. Benefit Exp. (P/L)	Dr. xxx
To SBP Reserve	xxx



Step 3: Calculate Purchase Consideration

Note 5: Existing Investment before control is acquired (i.e. Step-up Acquisition)

As per Ind AS 103, existing investments in the acquiree (held prior to acquisition of control) should also be considered as a part of PC at their fair value. Accordingly, if such investments are not appearing at fair value, they first need to be remeasured. The gain / loss on such remeasurement would be accounted for as per the choice of the entity as under:





Step 3: Calculate Purchase Consideration

Note 5: Existing Investment before control is acquired (i.e. Step-up Acquisition)

Accordingly, the journal entry would be as under:

Net Assets of S Ltd. (FV)	Dr. xxx	
Goodwill A/c (balancing figure)	Dr. xxx	
To Eq. Share Capital / Cash (FV)		xxx
To Investment in S Ltd. (FV)		xxx

Reason for recorded Existing Investment at Fair Value:

In the takeover entry on the date of acquisition, goodwill appears as a balancing figure. Since Net Assets and Other Elements of PC already appear at Fair Value on the Date of Acquisition, by recording these investments at fair value, the balancing figure of goodwill would then appear at Fair Value on the Date of Acquisition.

In substance, it is a deemed disposal of existing investments in S Ltd., as the existing investments lose their characteristic of being a non-controlling stake, and partake the characteristic of being a controlling stake.

Thus, generally when the cumulative stake crosses 50%, the standard views it as a sale of the non-controlling stake, and the acquisition of the entire controlling stake which is represented by the two credits in the journal entry above.



Step 4: Net Assets taken over

Important Points:

1. On the date of acquisition, the acquirer should record all identifiable assets and liabilities of the selling company at fair value as on the date of acquisition in its books as per Ind AS 103. Further, 100% of the fair value of the assets and liabilities should be recorded, regarded of the percentage of controlling stake acquired (could be 51% or 100% stake acquisition).
2. Net assets would comprise of assets (e.g. PPE, intangible assets, investment property etc.) and liabilities (e.g. creditors, debentures, preference shares classified as liabilities etc.). **Items appearing under Equity (e.g. equity capital, other equity, reserves should not be taken over.**
3. Net assets would include all identifiable items irrespective of whether these items appear separately in the books of the selling company or not e.g. contingent liabilities and indemnification assets
4. Thus, a proper due diligence needs to be conducted to identify all assets and liabilities as mentioned in Point 3 above. The only non-identifiable asset / credit balance would therefore be the goodwill / capital reserve / gain on bargain purchase, which is a sacrosanct figure, the determination of which is the objective of Ind AS 103.



Step 4: Net Assets taken over

Contingent Liabilities taken over

Initial Recognition on the Date of Acquisition (Ind AS 103)



It is a part of Net Assets taken over in Step 4, (not to be confused with contingent consideration forming part of PC) since these contingent liabilities represent amounts payable to third parties and not shareholders



To be recorded at **fair value** on the date of acquisition (irrespective of whether it is probable or not)

Subsequent Recognition (in subsequent Balance Sheets (as per Ind AS 37))



Till the date of settlement, the contingent liability at each Balance Sheet date would be recorded at the higher of:

- (a) Liability recorded on the acquisition date; or
- (b) Liability determined as per Ind AS 37



Step 4: Net Assets taken over

Indemnification Assets

Generally, these represent reimbursement or recovery rights in respect of the contingent liabilities taken over. These indemnification assets are recorded as a part of Net Assets taken over on the date of acquisition on the same basis as the liability for which indemnification is given is recorded. Thus, in other words, the indemnification asset is measured considering the actual liability to be the same as the contingent liability to be recorded.

The recognition of indemnification asset is in accordance with Ind AS 103 (and not as per Ind AS 37, which prohibits recognition of contingent assets) and hence will be recorded regardless of whether the realization of such asset is virtually certain or not.

Subsequent Recognition:

At each balance sheet date, the indemnification asset will continue to be recorded on the same basis as the liability recorded on that date.



Step 4: Net Assets taken over

In-process Research and Development

Initial Recognition on the Date of Acquisition (Ind AS 103)

↓
To be taken over as a part of Net Assets taken over in Step 4 at Fair Value on the date of acquisition (regardless of the fact these expenses incurred during the research phase may have been expensed in the P/L by the selling company on account of not fulfilling the P-I-R-A-T-E criteria laid down in Ind AS 38)

Subsequent Recognition* (in subsequent Balance Sheets (as per Ind AS 38))

↓
In nature of Research

↓
Additional Expenses to be recorded in the P/L Account

↓
In nature of Development

↓
Additional Cost to be capitalized subject to conditions (P-I-R-A-T-E criteria under Ind AS 38)

* Subsequent expenses incurred by the acquiring company



Step 4: Net Assets taken over

Non-current Assets Held for Sale

Where non-current assets are classified as held for sale by the selling company prior to acquisition, the acquirer, at the time of Business Combination, as per Ind AS 103, shall take over such non-current assets at Fair Value less Costs to Sell in case the acquirer also intends to sell them. **Usually, assets are taken over at fair value. This is an exception which required non-current assets held for sale to be taken over at Fair Value less Costs to Sell.**

Leases taken over at the time of Business Combination

1. Remaining lease term < 12 months (i.e. short-term lease for the acquirer); OR
2. Item leased is a low-value item in terms of Ind AS 116

↓
No ROU Asset / Liability shall be recorded on the date of acquisition i.e. no impact on the Net Assets taken over

↓
Rent expense shall be recorded as and when accrued (similar to how employee contracts taken over will be expenses as and when the expense accrues post acquisition)

Other Cases
↓

ROU Asset and corresponding Lease Liability shall be recorded at Present Value of remaining lease payments (and not Fair Value as for other assets) as a part of Net Assets taken over



Step 5: Calculate Non-Controlling Interest

In a holding-subsidary relationship, where controlling stake acquired $< 100\%$, Non-Controlling Interest (NCI) needs to be recognized in the Consolidated Accounts.

Ind AS 103 requires all assets and liabilities of the entity over which control is acquired (i.e. subsidiary) to be taken over at full values (i.e. 100%) irrespective of the fact that the acquirer (i.e. parent) may own less than 100%. **This is because the parent with its controlling stake has the power to direct the relevant activities for entire 100% of the net assets. Therefore, NCI needs to be created for that share in net assets that do not belong to the parent.**

As per Ind AS 103, NCI can be measured on the date of acquisition by either of the following methods:

1. Fair Value Method: This is the fair market value of NCI i.e. No. of shares held by NCI in the subsidiary x Market Price per share of the subsidiary. This method would be applied only if a separate market price / fair value is separately given in the question. The goodwill arrived at under this method represents the **Full Goodwill**, attributable to both the Parent and the NCI.
2. Proportionate Net Assets Method: NCI on date of acquisition = Fair Value of Net Assets of the subsidiary x NCI Stake. The goodwill arrived at under this method represents **Partial Goodwill**, attributable only to the Parent and not to the NCI.

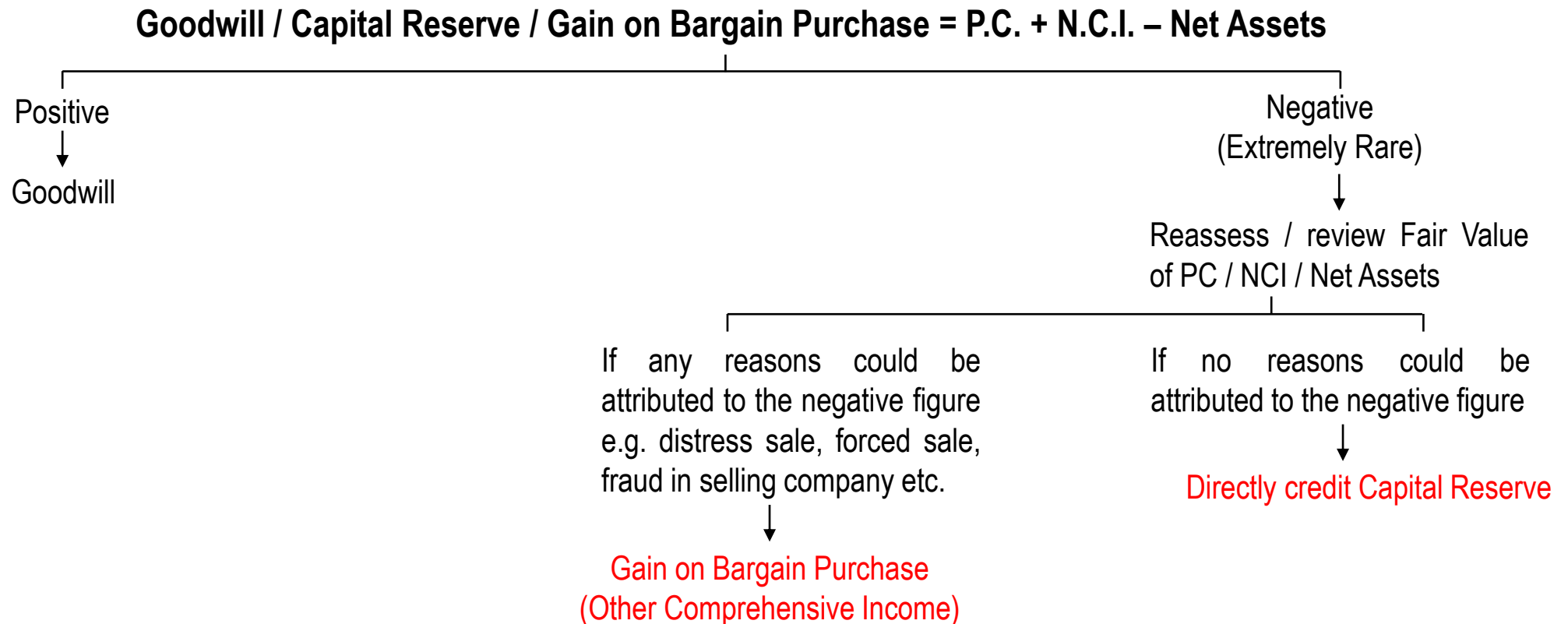
In examination, always follow Proportionate Net Assets Method unless a separate fair value / market price is given for NCI.

Classification and Presentation:

NCI would be shown as a separate line item **forming part of Equity** (and not liabilities). This is because NCI is also represented by equity shareholders in the subsidiary who have a residual interest and there is no contractual obligation to deliver cash.



Step 6: Goodwill / Capital Reserve / Gain on Bargain Purchase





Special Adjustments

Directly Attributable Expenses

In accordance with Ind AS 103, all expenses linked to the acquisition should be expensed to the P/L. None of these expenses are permitted to affect the goodwill / capital reserve

Direct Cost of Acquisition
(e.g. legal fees, liquidator's
expenses, bankers' fees,
due diligence fee etc.)

↓
Expensed to P/L

↓
The goodwill on acquisition cannot increase due to the costs of acquisition e.g. a selling company's goodwill cannot become higher just because a particular firm does a due diligence, hence these expenses are taken to the P/L.

Expenses which are linked to transfer
of assets in the name of the acquirer
(e.g. registration fees, stamp duty,
brokerage on shares etc.)

↓
Expensed to P/L

↓
As per Ind AS 103, Net Assets should be taken over at Fair Value (and not at Fair Value + Transaction Costs) in order to ensure goodwill is at Fair Value, hence these expenses are taken to the P/L.



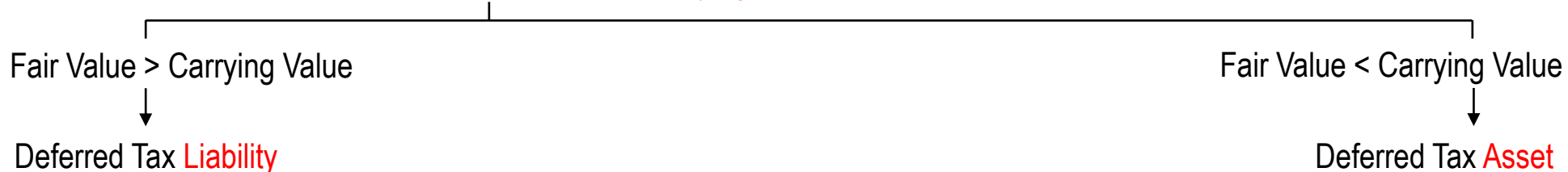
Special Adjustments

Deferred Tax Adjustments at the time of Business Combination

This is usually a hidden adjustment, which needs to be done only if:

- (i) Fair Value of Net Assets taken over, and carrying value (old) of Net Assets taken over is given, and
- (ii) Tax Rate is given

Deferred Tax = Difference between **Fair Value** and **Carrying Value** of Net Assets x Tax Rate



Impact at the time of Business Combination

There will be no changes in the first 3 steps.

However, in Step 4, the Net Assets taken over will be calculated as follows:

Fair Value of Net Assets taken over	xxx
Less: Deferred Tax Liability	xxx
Add: Deferred Tax Asset	xxx
Fair Value of Net Assets taken over (after tax)	xxx

Due to this adjustment to Net Assets, NCI would also change if calculated using the Proportionate Net Assets Method.

Where NCI is calculated at Fair Value, it would not change on account of this deferred tax adjustment.



Special Adjustments

Fair Value of **Non-Replacement** Awards of Selling Company (S) [i.e. ESOP scheme of S continues]

Pre-combination Allocation (Ind AS 103)

Allocated amount* would be a part of NCI, since the employees of the selling company would get shares in S, which gives rise to ownership interest in S not acquired by the purchasing company

Net Assets of S Ltd. Dr. xxx
Goodwill A/c Dr. xxx
To Eq. Share Capital / Cash xxx
To ~~SBP Reserve~~ NCI xxx

* Pre-combination Allocation =

Fair Value of **Original**
Award on the **Date of** $\times$ $\frac{\text{Vesting Period Served}}{\text{Longer of Original Vesting Period OR Total Revised Vesting Period}}$
Acquisition

Post-combination Allocation (Ind AS 102)

Allocated amount* is calculated as balancing figure i.e.,
Fair Value of Replacement Award (-) Pre-Combination
Allocated amount

Recorded as remuneration cost / employee benefit
expenses and should be transferred to the P/L over the
remaining vesting period

Remuneration Cost / Emp. Benefit Exp. (P/L) Dr. xxx
To ~~SBP Reserve~~ NCI xxx



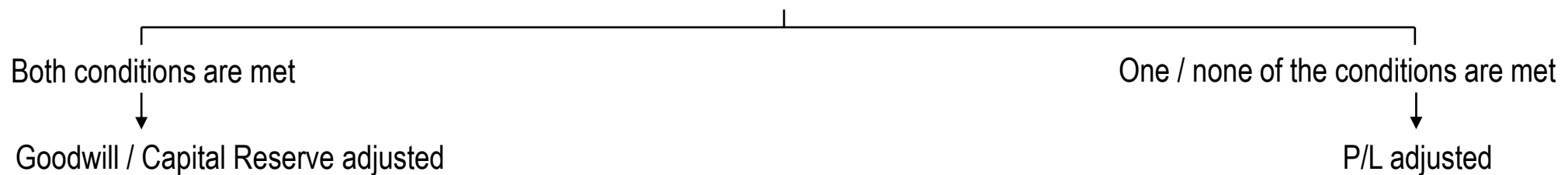
Special Adjustments

Measurement Period

It is possible that the acquirer may not have complete information to find the fair value of the net assets of the selling company on the date of acquisition. In such cases, Ind AS 103 adopts a liberal view and allows recording of such net assets taken over on a provisional basis. Therefore, the goodwill / capital reserve on the date of acquisition so calculated would also be provisional.

Where information is subsequently available within the measurement period, the fair value of the assets should be adjusted with a corresponding adjustment to the goodwill / capital reserve in case both the conditions specified below are met:

1. Additional information is available within one year from the date of acquisition, and
2. Additional information pertains to a condition existing on the date of acquisition.

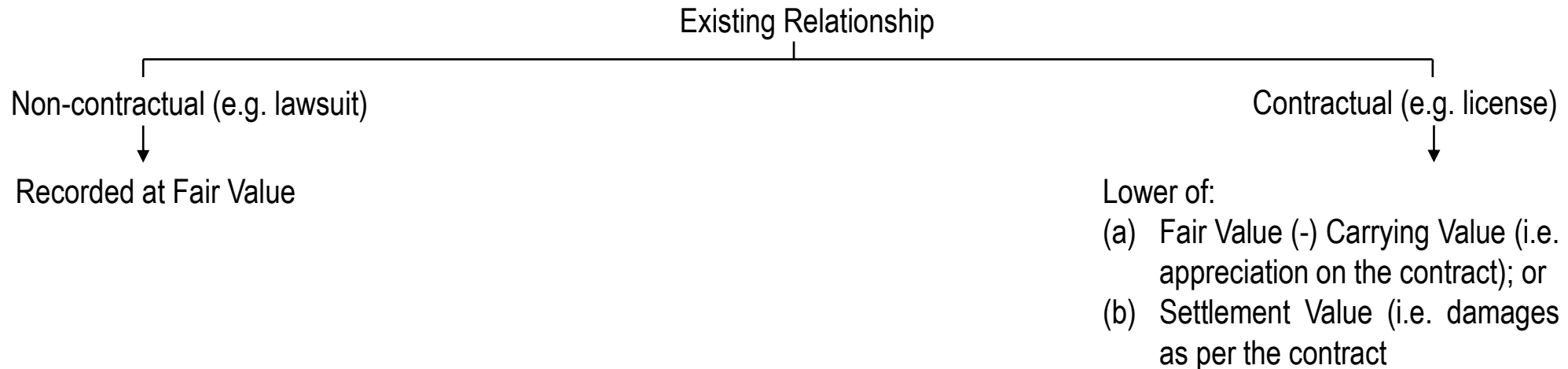




Special Adjustments

Composite Consideration (PC)

It is possible that there is an already existing relationship between the acquirer and the selling company prior to business combination, which may get settled as a part of business combination. In accordance with Ind AS 103, PC refers to the consideration paid for the business acquired. Any separate consideration for an existing / new relationship should be separated from the composite consideration and be separately recorded in the books of the acquirer.





Special Adjustments

Contingent Consideration v/s Contingent Consideration linked to future employment

Normally, contingent consideration which is paid for acquisition of business should form a part of PC.

However, where one of the conditions of contingent payment is linked to future employment, then as per Ind AS 103, this type of contingent consideration would be regarded to be in the nature of remuneration cost (i.e. employee benefit expense) and it needs to be separately accounted over the period of employment. Hence, it cannot be treated as a part of PC.



COMMON CONTROL COMBINATIONS: APPENDIX TO IND AS 103

This is a carve-in from then IFRS. A Common Control Combination (CCC) involves acquisition of entities / businesses in which all the combining entities / businesses are ultimately controlled / jointly controlled by the same shareholder / entity (in case of control) or shareholders / entities (in case of joint control) both before and after the combination, and such common control is not transitory.

In simple words, the substance in a CCC is not Business Combination, but Restructuring of the Group. Accordingly, this Appendix was added to Ind AS 103.

Examples of CCC include:

1. Merger of subsidiary with a parent
2. Merger between fellow subsidiaries
3. Conversion of partnership firm to a company
4. Demerger of a division which is ultimately controlled by the same parent company / controlling shareholders

For a transaction to be classified as a CCC, it is important to establish control / joint control pre- and post-combination with the same entity / entities. Where no such control / joint control exists there cannot be a CCC even if the same shareholders continue to remain in the post-combination entity.



COMMON CONTROL COMBINATIONS: APPENDIX TO IND AS 103

Accounting for CCC

CCC should be accounted using the Pooling of Interest method, which involves the following steps:

1. All assets and liabilities appearing in the books of the selling company should be taken over at **Book Values**. Further, no new asset / liability will be created.
2. Securities issued as Purchase Consideration should be recorded at Nominal Value (irrespective of fair value). Nominal value is interpreted as issue price (if given), or face value if issue price is not given.
3. All Reserves / Retained Earnings will be taken over and the identity of such Reserves will be maintained.
4. Any difference between PC and Net Assets taken over (including Reserves), whether positive or negative, will be shown as a separate line item '**Capital Reserve on Restructuring**'. Goodwill / Bargain Purchase Gain cannot be created in case of a CCC.

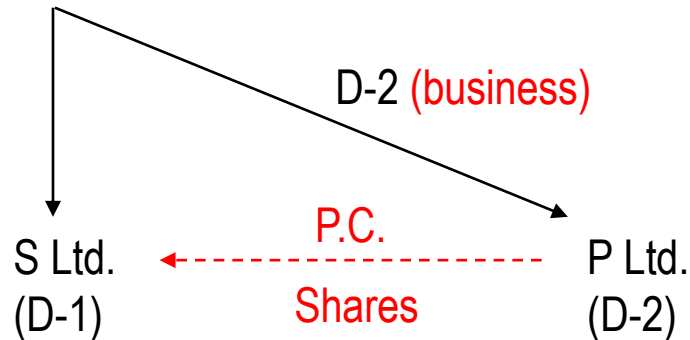


DEMERGERS

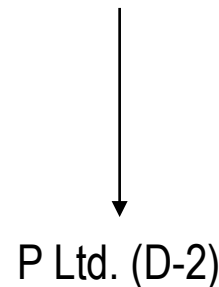
Here, a part (i.e. division) of a company is transferred to another company which operates separately from the original selling company. Accounting for a demerger would depend on which it is classified as a Business Combination / CCC. This will, in turn, depend on how PC is distributed as seen below:

Case 1: PC issued by Purchasing Company (P Ltd.) to Selling Company (S Ltd.)

1. S Ltd.
(D-1 and D-2)



2. Post-demerger structure
S Ltd. (D-1)



3. Control over D-2 business

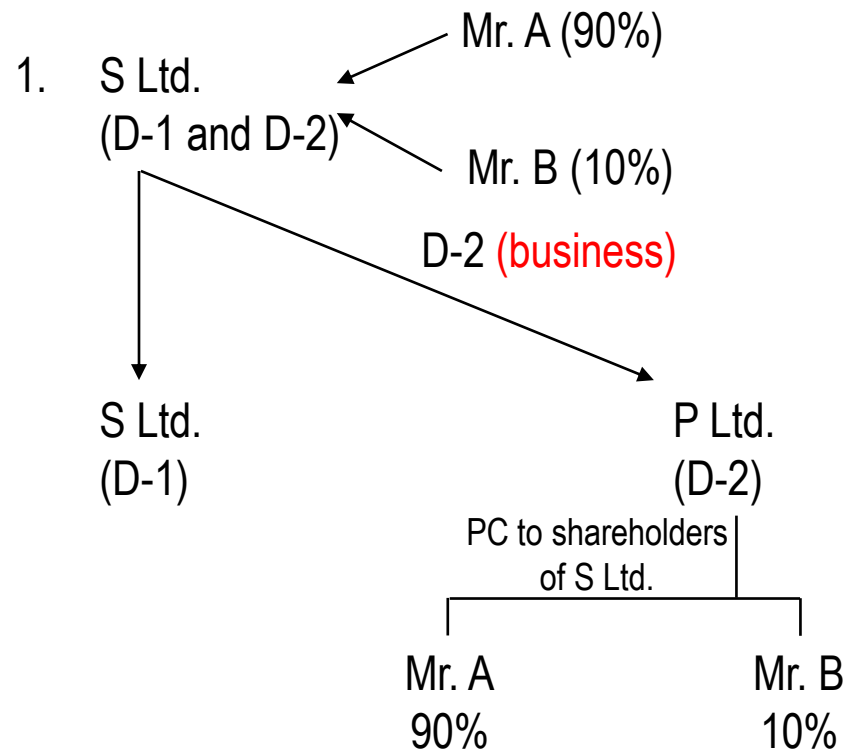
Pre: S Ltd.
Post: P Ltd. (ultimately
controlled by S Ltd.)

4. Hence, CCC



DEMERGERS

Case 2: PC issued by P Ltd. to shareholders of S Ltd. and there is a controlling shareholder



2. Control over D-2 business

Pre: S Ltd. (ultimately controlled by Mr. A)

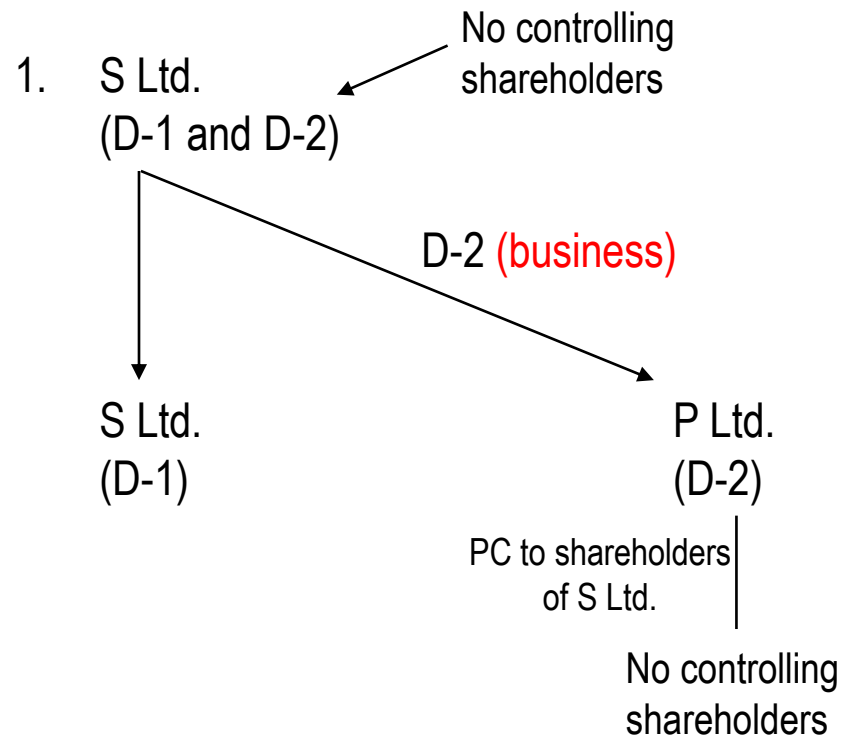
Post: P Ltd. (ultimately controlled by Mr. A)

3. Hence, CCC



DEMERGERS

Case 3: PC issued by P Ltd. to shareholders of S Ltd. and there are no controlling shareholder



2. Control over D-2 business

Pre: S Ltd. (no ultimate control)

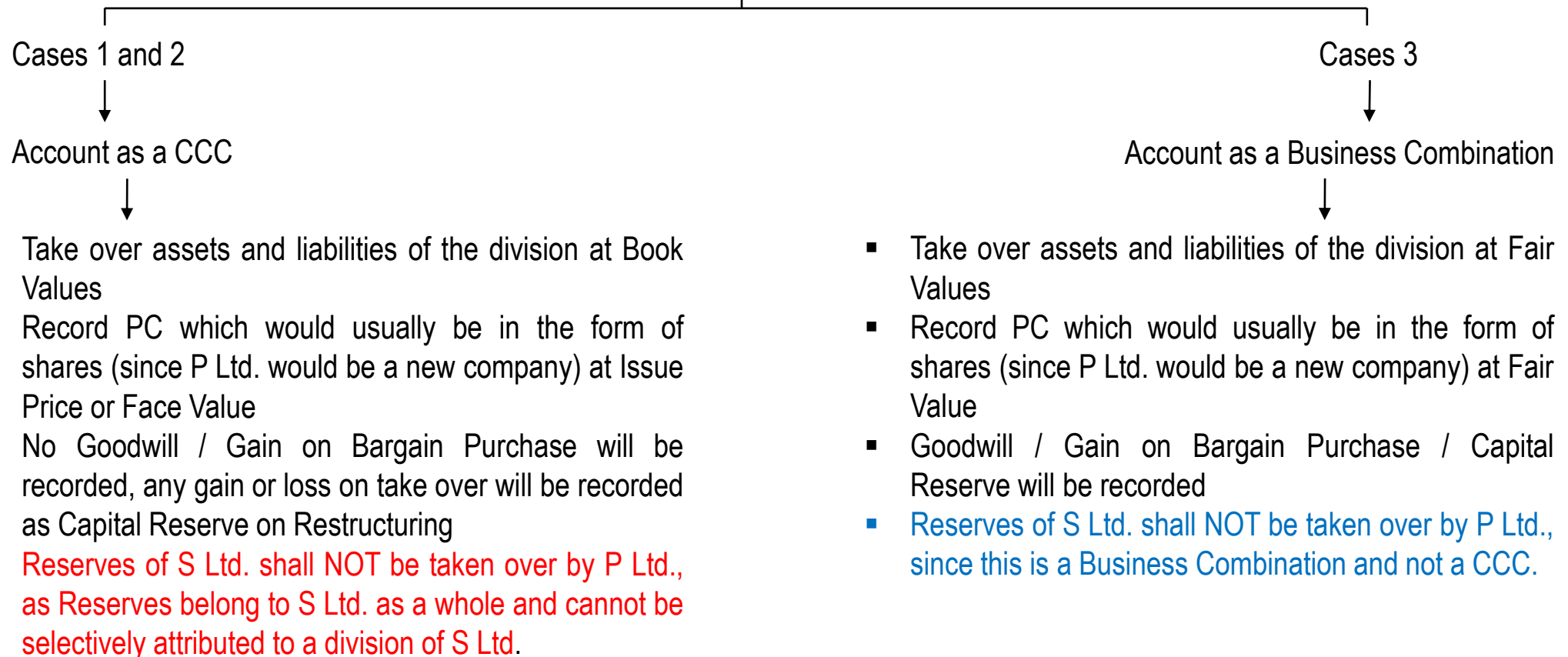
Post: P Ltd. (no ultimate control)

3. Hence, Business Combination



ACCOUNTING FOR DEMERGERS

Books of the Acquirer i.e. P Ltd.





ACCOUNTING FOR DEMERGERS

Books of the Selling Company i.e. S Ltd. (not covered under Ind AS 103)

Case 1 (CCC for acquirer)

PC is issued to S Ltd., hence S Ltd. becomes parent of P Ltd.

Liabilities	Dr. xxx
Investment in P Ltd.	Dr. xxx
Capital Reserve*	Dr. xxx
To Assets	xxx
To Capital Reserve*	xxx

- Liabilities and Assets of the Division are recorded at Book Values, since they have to be eliminated from the books
- * Balancing figure (debit / credit) will be transferred to Capital Reserve as loss or gain on restructuring

Case 2 (CCC for acquirer)

PC is issued to shareholders of S Ltd. directly, and not to S Ltd.

Liabilities	Dr. xxx
~~Investment in P Ltd.~~	~~Dr. xxx~~
Capital Reserve*	Dr. xxx
To Assets	xxx
To Capital Reserve*	xxx

Case 3 (Business Combination for Acquirer)

- Transaction gets covered as distribution of non-cash assets to owners, and hence assets / liabilities transferred should be remeasured to fair value and the gain / loss on remeasurement should be recorded in P/L.

- Assets / liabilities so transferred will be eliminated at fair values, and the balancing figure to be taken as Dividend / Distribution (Retained Earnings)

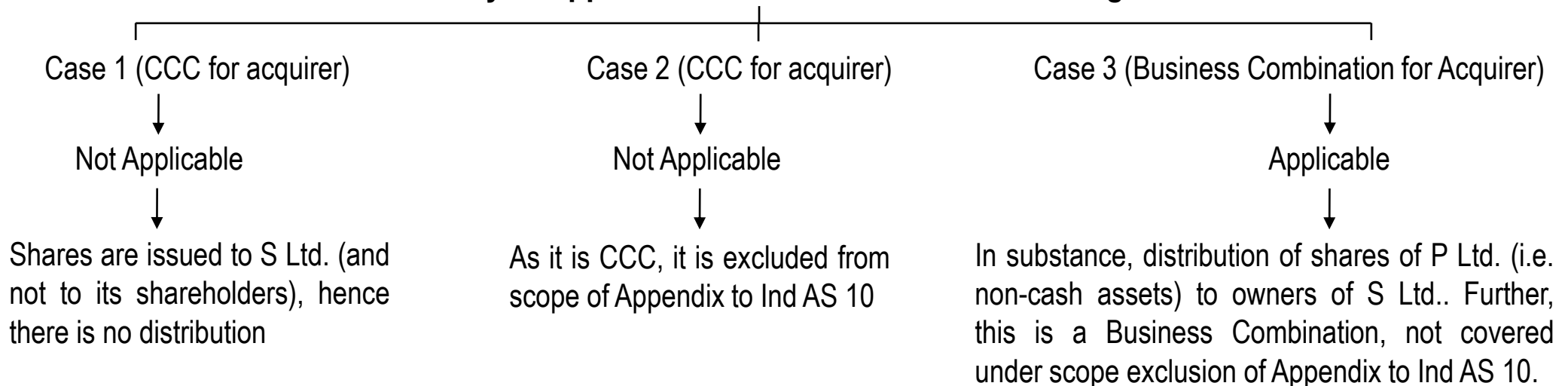
Liabilities	Dr. xxx (FV)
Retained Earnings	Dr. xxx (bal. fig.)
To Assets	xxx (FV)



APPENDIX TO IND AS 10: DISTRIBUTION OF NON-CASH ASSETS TO OWNERS

- The non-cash assets (e.g. PPE / Shares in a new company on a demerger etc.) should be proportionately distributed to all shareholders.
- Distribution of such non-cash assets should be considered as distributions to owners i.e. dividend.
- Before such a distribution, the non-cash assets should be remeasured to fair value, with the gain / loss on remeasurement taken to P/L.
- This treatment will not apply in case of shares issued in a new company at the time of CCC (Demerger: Case 2)

Summary of Appendix to Ind AS 10 in case of Demerger





THANK YOU