

BUSINESS COMBINATION AND CORPORATE RESTRUCTURING

Illustrations

1. Illustration

Bima Ltd. acquired 65% of shares on 1 June, 20X1 in Nafa Ltd. which is engaged in production of components of machinery. Nafa Ltd. has 1,00,000 equity shares of Rs. 10 each. The quoted market price of shares of Nafa Ltd. was Rs. 12 on the date acquisition. The fair value of Nafa Ltd.'s identifiable net assets as on 1 June, 20X1 was Rs. 80,00,000.

Bima Ltd. wired Rs. 50,00,000 in cash and issued 50,000 equity shares as purchase consideration on the date of acquisition. The quoted market price of shares of Bima Ltd. on the date of issue was Rs. 25 per share. Bima Ltd. also agrees to pay additional consideration of Rs. 15,00,000, if the cumulative profit earned by Nafa Ltd. exceeds Rs. 1 crore over the next three years. On the date of acquisition, Nafa Ltd. assessed and determined that it is considered probable that the extra consideration will be paid. The fair value of this consideration on the date of acquisition is Rs. 9,80,000. Nafa Ltd. incurred Rs. 1,50,000 in relation to the acquisition. It measures Non-controlling interest at fair value. How will the acquisition of Nafa Ltd. be accounted by Bima Ltd., under Ind AS 103? Prepare detailed workings and pass the necessary journal entry.

Solution

	Amount (Rs.)
A Fair value of consideration given	
Cash	50,00,000
Equity issued (50,000 x 25)	12,50,000
FV of Contingent Consideration	9,80,000
B FV of NCI - 35%	4,20,000
[100000 x 12 x 35%]	
Total	76,50,000
C Fair value of Net Assets	80,00,000
Capital Reserve (Gain on BP) [C-B]	3,50,000

Journal Entries in Bima (Group)			
Net Assets. Dr	80,00,000		
To Liability on Contingent Consideration		9,80,000	
To Equity		12,50,000	
To Cash		50,00,000	
To Non Controlling Interest		4,20,000	
To Capital Reserve		3,50,000	

The direct cost of acquisition of Rs. 1,50,000 will be expensed in P&L.

P&L Dr.	1,50,000	
To Bank		1,50,000

2. Illustration

On 1st April, 20X1, PQR Ltd. acquired 30% of the voting ordinary shares of XYZ Ltd. for Rs. 8,000 crore. PQR Ltd. accounts its investment in XYZ Ltd. using equity method as prescribed under Ind AS 28. At 31st March, 20X2, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

(Rs. in crore)

Share of profit or loss

700



Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50

The carrying amount of the investment in the associate on 31st March, 20X2 was therefore Rs. 8,850 crore (8,000 + 700 + 100 + 50).

On 1st April, 20X2, PQR Ltd. acquired the remaining 70% of XYZ Ltd. for cash Rs. 25,000 crore.

The following additional information is relevant at that date:

	(Rs. in crore)
Fair value of the 30% interest already owned	9,000
Fair value of XYZ's identifiable net assets	30,000
How should such business combination be accounted for?	

Solution

Ind AS 103 states that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value. The resulting gain or loss shall be recognised in the Statement of Profit and Loss or Other Comprehensive Income (OCI), as appropriate.

In prior reporting periods, if the acquirer had recognised changes in value of its equity interest in the acquiree through OCI, then such accumulated amounts must be reclassified on the same basis as if the acquirer had directly disposed of the previously held equity interest.

Journal Entry for Acquisition of XYZ Ltd.

(Rs. in crore)

Particulars	Debit	Credit	Recognised in
Identifiable Net Assets of XYZ Ltd. A/c Dr.	30,000		Balance Sheet
Goodwill (W.N.1) A/c Dr.	4,000		Balance Sheet
Foreign Currency Translation Reserve A/c Dr.	100		Trf to PL
PPE Revaluation Reserve A/c Dr.	50		Reclassified to RE
To Cash		25,000	Cash paid
To Investment in Associate – XYZ Ltd.		8,850	Investment derecognised
To Retained Earnings (W.N.2)		50	PPE revaluation
To Gain on Previously Held Interest in XYZ Ltd.		250	Total Gain
(Being acquisition of XYZ Ltd. recognised)			

1. Calculation of Goodwill

Particulars	Amount
Cash Consideration	25,000
Add: Fair Value of Previously Held Equity Interest	9,000
Total Consideration Transferred	34,000
Less: Fair Value of Identifiable Net Assets Acquired	(30,000)
Goodwill	4,000

2. Credit to Retained Earnings → reversal of unrealised gain of Rs. 50 crore in Other Comprehensive Income (OCI) related to PPE revaluation. As per Ind AS 16, this amount is not reclassified to Profit or Loss.

3. Computation of Gain on Previously Held Interest
(Rs. in crore)

Particulars	Amount
Fair Value of 30% Interest in XYZ Ltd. at 1st April, 20X2	9,000
Less: Carrying Amount of Interest in XYZ Ltd. at 1st April, 20X2	(8,850)
Subtotal	150
Add: Unrealised Gain Previously Recognised in OCI	100
Gain on Previously Held Interest recognised in P&L	250



3. Illustration

Company A and Company B are in power business. Company A holds 25% of equity shares of Company B. On 1st November, Company A obtains control of Company B when it acquires a further 65% of Company B's shares, thereby resulting in a total holding of 90%. The acquisition had the following features:

Consideration: Company A transfers cash of Rs. 59,00,000 and issues 1,00,000 shares on 1st November. The market price of Company A's shares on the date of issue is Rs. 10 per share.

Contingent consideration: Company A agrees to pay additional consideration of Rs. 7,00,000 if the cumulative profits of Company B exceed Rs. 70,00,000 over the next two years. At the acquisition date, it is not considered probable that the extra consideration will be paid. The fair value of the contingent consideration is determined to be Rs. 3,00,000 at the acquisition date.

Transaction costs: Company A pays acquisition-related costs of Rs. 1,00,000.

Non-controlling interests (NCI): The fair value of the NCI is determined to be Rs. 7,50,000 at the acquisition date based on market prices. Company A elects to measure non-controlling interest at fair value for this transaction.

Previously held non-controlling equity interest: Company A has owned 25% of the shares in Company B for several years. At 1st November, the investment is included in Company A's consolidated balance sheets at Rs. 6,00,000, accounted for using the equity method; the fair value is Rs. 20,00,000.

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

Determine the accounting under acquisition method for the business combination by Company A.

Solution

1. Calculation of Goodwill/Capital Reserve

Particulars	Amount
Fair Value of Consideration Transferred (65%)	
– Cash	59,00,000
– Fair Value of Equity Issued	10,00,000
– Fair Value of Contingent Consideration	3,00,000
Total Purchase Consideration	72,00,000
Fair Value of Existing Interest (25%)	20,00,000
NCI (10%) at Fair Value	7,50,000
Total (A)	99,50,000
Less: Fair Value of Identifiable Net Assets (B)	(60,00,000)
Goodwill	39,50,000

Journal entry for business acquisition

Journal Entry for Acquisition of Company B

(Rs. in lakh)

Particulars	Debit	Credit
Identifiable Net Assets of Company B A/c Dr.	60.00	
Goodwill A/c Dr.	39.50	
To Cash A/c		59.00
To Share Capital / Securities Premium A/c		10.00
To Contingent Consideration - Liability A/c		3.00
To Investment in Associate - B Ltd.		6.00
To Gain on Previously Held Interest (P&L)		14.00



To Non-Controlling Interest (NCI) A/c		7.50
(Being acquisition of 65% in B Ltd., recognition of goodwill, NCI and remeasurement gain)		

Acquisition Expense

Particulars	Debit	Credit
Acquisition Expenses A/c Dr.	1.00	
To Cash A/c		1.00
(Being acquisition-related costs expensed to P&L)		

4. Illustration

ABC Ltd. acquires PQR Ltd. for a consideration of Rs. 1 crore. Four years ago, ABC Ltd. had granted a ten-year license allowing PQR Ltd. to operate in Europe. The cost of the license was Rs. 2,50,000. The contract allows either party to terminate the franchise at a cost of the unexpired initial fee plus 20%. At the date of acquisition, the settlement amount is Rs. 1,80,000 [(Rs. 2,50,000 x 6/10) + 20%].

ABC Ltd. has acquired PQR Ltd., because it sees high potential in the European market and wishes to exploit it. ABC Ltd. calculates that under current economic conditions and at current prices it could grant a six-year franchise for a price of Rs. 4,50,000.

How is the license accounted for as part of the business combination?

Solution

Ind AS 103 states that an acquirer and acquiree may have a **pre-existing relationship**, which can be:

- **Contractual** (e.g., vendor-customer, licensor-licensee)
- **Non-contractual** (e.g., plaintiff-defendant).

If the business combination **settles a pre-existing relationship**, the acquirer must recognize a **gain or loss**, determined as follows:

1. **For a non-contractual relationship** (e.g., lawsuit): Recognized at **fair value**.
2. **For a contractual relationship**, the recognized amount is the lesser of:

(i) The **favourable/unfavourable difference** compared to market terms.

(ii) The **stated settlement amount** in the contract.

Application to Given Case:

- **License recognized at ₹4,50,000** (fair value based on remaining contractual life).
- **Loss on contract settlement:** Lesser of:
 - **₹3,00,000** (difference between fair value ₹4,50,000 and unamortized value ₹1,50,000).
 - **₹1,80,000** (termination cost).

Since ₹1,80,000 is lower, it is recognized as **settlement loss**.

₹1 crore paid is split as:

- **₹98.2 lakh** → Consideration for business combination.
- **₹1.8 lakh** → Recognized separately as a **settlement loss** on the re-acquired right.



5. Illustration

ABC Ltd. prepares consolidated financial statements upto 31st March each year. On 1st July 20X1, ABC Ltd. acquired 75% of the equity shares of JKL Ltd. and gained control of JKL Ltd. the issued shares of JKL Ltd. is 1,20,00,000 equity shares. Details of the purchase consideration are as follows:

- On 1st July, 20X1, ABC Ltd. issued two shares for every three shares acquired in JKL Ltd. On 1st July, 20X1, the market value of an equity share in ABC Ltd. was Rs. 6.50 and the market value of an equity share in JKL Ltd. was Rs. 6.
- On 30th June, 20X2, ABC Ltd. will make a cash payment of Rs. 71,50,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 20X1. On 1st July, 20X1, ABC Ltd. would have to pay interest at an annual rate of 10% on borrowings.
- On 30th June, 20X3, ABC Ltd. may make a cash payment of Rs. 3,00,00,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 20X1. This payment is contingent upon the revenues of ABC Ltd. growing by 15% over the two-year period from 1st July, 20X1 to 30th June, 20X3. On 1st July, 20X1, the fair value of this contingent consideration was Rs. 2,50,00,000. On 31st March, 20X2, the fair value of the contingent consideration was Rs. 2,20,00,000.

On 1st July, 20X1, the carrying values of the identifiable net assets of JKL Ltd. in the books of that company was Rs. 6,00,00,000. On 1st July, 20X1, the fair values of these net assets was Rs. 7,00,00,000. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31st March, 20X2, JKL Ltd. had a poorer than expected operating performance. Therefore, on 31st March, 20X2 it was necessary for ABC Ltd. to recognise an impairment of the goodwill arising on acquisition of JKL Ltd., amounting to 10% of its total computed value.

Compute the impairment of goodwill in the consolidated financial statements of ABC Ltd. under both the methods permitted by Ind AS 103 for the initial computation of the non-controlling interest in JKL Ltd. at the acquisition date.

Solution

			Amt '000	
A	Fair value of Net Assets	as given	70,000	
	Less: DTL (Note)		(2,000)	
			68,000	
B.			Fair Value	Prop share in NA
	FV of consideration	$12000000/3 \times 75\% \times 2 \times 6.5$	39,000	39,000
	PV of def. consideration	$71,50,000 / 1.1$	6,500	6,500
	FV of contingent consider.		25,000	25,000
	FV of NCI	$[1,20,00,000 \times 25\% \times 6]$	18,000	
	NCI @ prop. Share in NA	$[68,000 \times 25\%]$		17,000
		Total [B]	88,500	87,500
		Goodwill [B-A]	20,500	19,500
		Impairment @ 10%	2,050	1,950
		Carrying Amt	18,450	17,550

WN – Deferred Tax Liability

Deferred Tax Liability		
Fair value incorporated		70,000
Tax Base		60,000



Temp. Diff		10,000
Tax Rate	20%	
Deferred Tax Liability		2,000

6. Illustration – Accounting acquirer being different from legal acquirer

AX Ltd. and BX Ltd. amalgamated from 1st January, 20X2. A new Company ABX Ltd. with shares of Rs. 10 each was formed to take over the businesses of the existing companies.

Summarized Balance Sheet as on 31-12-20X1

ASSETS	AX(000)	BX(000)
Non Current Assets		
Property, Plant and Equipment	8,500	7,500
Financial assets		
Investment	1,050	550
Current assets		
Inventory	1,250	2,750
Financial assets		
Trade receivables	1,800	4,000
Cash and Cash equivalent	450	400
Total	13,050	15,200
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs. 10 each)	6,000	7,000
Other equity	3,050	2,700
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings (12% Debentures)	3,000	4,000
Current liabilities		
Financial liabilities		
Trade payables	1,000	1,500
Total	13,050	15,200

ABX Ltd. issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies. Also the new debentures were issued in exchange of the old series of both the companies.

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

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

Assets	AX Ltd. ('000)	BX Ltd. ('000)
Property, Plant and Equipment	9,500	1,000
Inventory	1,300	2,900
Fair value of the business	11,000	14,000

Solution

Although ABX Ltd. is the legal acquirer because it issues the shares, the accounting acquirer is determined by the substance of the transaction. After the amalgamation, the former shareholders of BX Ltd. hold 56% of the voting rights in ABX Ltd., compared with 44% held by the former shareholders of AX Ltd. This controlling interest, together with BX Ltd.'s larger



fair value, indicates that BX Ltd. is the accounting acquirer and AX Ltd. is the accounting acquiree.

Determining the Accounting Acquirer (‘000)

	AX Ltd.	BX Ltd
Fair Value	11,000	14,000
Face Value per share	10	10
No. of shares to be issued	1,100	1,400
i.e. Total No. of shares in ABX Ltd. = 2,500 thousand shares		
Thus, % Held by shareholders of each Company in Combined Entity	44% 1100/2500	56% 1400/2500

In this case ABX is the legal acquirer & since owners of BX controls the combined entity, BX is the accounting acquirer. AX Ltd is the accounting acquiree.

Computation of Purchase Consideration

BX Ltd. has 7,00,000 shares outstanding before the merger. After the merger, these shares represent 56% of the combined entity. Accordingly, the number of shares notionally issued to the shareholders of AX Ltd. must represent the remaining 44% interest. The notional number of shares issued is therefore $7,00,000 \times 44 \div 56 = 5,50,000$ shares.

Shareholders of	% Stake	Shares (000)
BX	56	700
AX	44	No of Shares = $700 \times 44/56$ = 550

Purchase consideration issued by BX Ltd for accounting is 5,50,000 shares.

Step 1 - Determine the purchase consideration	'000		
No of shares issued by BX Ltd	550		
Fair value per share of BX Ltd (FV of Business / No of shares)	20	[14,000/700]	
Total Consideration	11,000		
Step - 2 Fair value of net assets of Acquiree	AX	Book value of BX	Combined
PPE	9,500	7,500	17,000
Inventory	1,300	2,750	4,050
Investments	1,050	550	1,600
Trade Receivables	1,800	4,000	5,800
Cash	450	400	850
Total Assets	14,100	15,200	29,300
Borrowings	3,000	4,000	7,000
Trade Payables	1,000	1,500	2,500
Total Liabilities	4,000		
FV of identified Net Assets	10,100		



Step - 3 Goodwill (11,000 – 10,100)	900		

Consolidated balance sheet after acquisition

Assets		
Non Current Assets		
- Property, Plant & Equipment	17,000	[Acquirer(BV) + Acquiree (FV)]
- Goodwill	900	
- Financial Assets		
Investments	1,600	
Current Assets		
Inventory	4,050	
Financial Assets		
- Trade Receivable	5,800	
- Cash & Cash eq.	850	
Total Assets	30,200	
Equity & Liabilities		
Equity		
- Equity share capital	12,500	Reflect BX structure
- Other Equity	8,200	Only BX
Non Current Liabilities		
- Financial Liabilities		
12% Debentures	7,000	AX (FV) + BX (BV)
Current Liabilities		
- Financial Liabilities		
Trade payables	2,500	AX (FV) + BX (BV)
	30,200	
Note		
Other equity		
General Reserve	2,000	
P&L	500	
Investment Allowance reserve	100	
Export Profit reserve	100	
Securities premium (550 x 10)	5500	
	8200	



The balance sheet of Professional Ltd & Dynamic Ltd is given below

Assets	Professional Ltd	Dynamic Ltd
Non-Current Assets:		
Property, plant and equipment	300	500
Investment	400	100
Current assets:		
Inventories	250	150
Financial assets		
Trade receivables	450	300
Cash and cash equivalents	200	100
Others	400	230
Total	2,000	1,380
Equity and Liabilities		
Equity		
Share capital- Equity shares of Rs. 100 each of Dynamic Ltd. and Rs. 10 each of Professional Ltd.	500	400
Other Equity	810	225
Non-Current liabilities:		
Financial liabilities		
Long term borrowings	250	200
Long term provisions	50	70
Deferred tax	40	35
Current Liabilities:		
Financial liabilities		
Short term borrowings	100	150
Trade payables	250	300
Total	2,000	1,380

Other information

- Professional Ltd. acquired 70% shares of Dynamic Ltd. on 1st April, 20X2 by issuing its own shares in the ratio of 1 share of Professional Ltd. for every 2 shares of Dynamic Ltd. The fair value of the shares of Professional Ltd was Rs. 40 per share.
- The fair value exercise resulted in the following: (all nos in Lakh)
 - Fair value of PPE on 1st April, 20X2 was Rs. 350 lakhs.
 - Professional Ltd also agreed to pay an additional payment as consideration that is higher of 35 lakh and 25% of any excess profits in the first year, after acquisition, over its profits in the preceding 12 months made by Dynamic Ltd. This additional amount will be due after 2 years. Dynamic Ltd has earned Rs. 10 lakh profit in the preceding year and expects to earn another Rs. 20 Lakh.
- In addition to above, Professional Ltd also had agreed to pay one of the founder shareholder a payment of Rs. 20 lakh provided he stays with the Company for two year after the acquisition.
- Dynamic Ltd had certain equity settled share based payment award (original award) which got replaced by the new awards issued by Professional Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of Dynamic Ltd have already served 2 years of service. As per the replaced awards the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:
 - Original award- Rs. 5 lakh
 - Replacement award-Rs. 8 lakh.
- Dynamic Ltd had a lawsuit pending with a customer who had made a claim of Rs. 50 lakh. Management reliably estimated the fair value of the liability to be Rs. 5 lakh.
- The applicable tax rate for both entities is 30%.

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



Solution

Step 1 Purchase Consideration	
No of Shares in Dynamic acquired	$70\% \times 400,00,000 / 100$
	2,80,000
No of shares issued (1 for 2)	$2,80,000 / 2 = 1,40,000$
FV of each share in professional ltd	Rs. 40
1 FV of shares issued as PC (in lacs)	$1.4 \text{ lacs} \times \text{Rs. } 40 = 56$
2 PV of deferred consideration at 10% for 2 years	$\frac{35}{(1.1)^2} = 28.93$
3 Replacement award [WN-1]	2.50
Total Purchase Consideration	87.43

Note –

- when deferred tax implications are involved, plot book value and fair value like below or compute Deferred tax separately
- Whenever there is a gain – it results in DTL and vice versa

	Book Value	Dynamic Fair Value	Difference
Step 2 - Identifiable Net Assets Acquired			
Property, Plant & Equipment	500	350	150
Investment	100	100	-
Inventories	150	150	-
Trade Receivables	300	300	
Cash	100	100	
Others	230	230	
Total Assets	1,380	1230	
Less: Liabilities			
Long term borrowings	(200)	(200)	
Long term provisions	(70)	(70)	
Deferred Tax	(35)	(35)	
[Represent existing DTL]			
Short term borrowings	(150)	(150)	
Trade Payables	(300)	(300)	
FV of Contingent Liability	-	(5)	5
Total difference for DTA			155
*Since both items result in loss, there would be a DTA			
Deferred Tax Asset @ 30% x 155	-	46.50	
FV of Net Assets Acquired		516.50	
WN 1 - Replacement Award			
Original Award FV	5.00		
Original vesting period	4 Years		
Vesting period completed	2 years		
Revised vesting period	3 Years		
Pre acquisition value	$5 \times 2/4 = 2.50$		
Value of replacement award	8.00		



Post acquisition compensation 8-2.5	5.50		
Step 3 - Calculation of Goodwill or gain on bargain purch.			
1. FV of purchase consideration	87.43		
2. Value of NCI [30% of 516.50]	154.95		
Total	242.38		
FV of Net assets acquired	516.50		
Gain on bargain purchase	274.12		

Consolidated Balance Sheet	
1. Assets	
Non-Current Assets	
Property, Plant & Equip. [300+350]	650
Investment [400+100]	500
Current Assets	
Inventories [250+150]	400
Financial Assets	
Trade Receivables [450+300]	750
Cash & CE [200+100]	300
Others [400+230]	630
Total Assets	3,230.00
Equity & Liabilities	
Equity	
Equity Share Capital [note 1]	514
Other Equity [Note 2]	1,128.62
NCI	154.95
Non-Current Liabilities	
Financial Liabilities	
Long term borrowings [250+200]	450
Deferred Consideration	28.93
Long term provisions [50+70]	120
Deferred tax [40+35-46.5]	28.50
Current Liabilities	
Financial Liabilities	
Short term borrowings [100+150]	250
Trade payables [250+300]	550
Provision for law suit	5
	3,230.00



Note 1 - Equity Share capital	
50 lakhs shares of Rs. 10 each	500
1.4 lakhs shares of Rs. 10 each issued	14
	514
Note 2 - Other Equity	
Other equity of Prof Ltd	810
Securities premium [1.4 x 30]	42
SBP Reserve	2.50
Capital Reserve	274.12
	1,128.62

Notes for treatment of various items

- The Rs. 35 lakhs minimum payment is a deferred consideration at PV (10%), not contingent consideration since it is payable irrespective of profits.
- The Rs. 20 lakhs employment-linked payment is a post-acquisition compensation, not part of purchase consideration.
- The fair value of replacement award given should be split between pre acquisition and post acquisition. Pre acquisition value = FV of acquiree award x Vesting completed / Higher of existing and new period
- As per Ind AS 103, a contingent liability is measured at fair value,
- Any difference between book value and fair value of net assets on acquisition is considered for deferred tax.

8. Illustration

H Ltd. acquired equity shares of S Ltd., a listed company, in two tranches as mentioned in the below table:

Date	Equity stake purchased	Remarks
1st November, 20X6	15%	The shares were purchased based on the quoted price on the stock exchange on the relevant dates.
1st January, 20X7	45%	

Both the above-mentioned companies have Rupees as their functional currency. Consequently, H Ltd. acquired control over S Ltd. on 1st January, 20X7. Following is the Balance Sheet of S Ltd. as on that date: (Rs. in crores)

Particulars	Carrying Value	Fair value
ASSETS:		
Non-current assets		
Property, plant and equipment	40.0	90.0
Intangible assets	20.0	30.0
Financial assets – Investments	100.0	350.0
Current assets		
Inventories	20.0	20.0
Financial assets		
Trade receivables	20.0	20.0
Cash held in functional currency	4.0	4.0
Other current assets		
Non-current asset held for sale	4.0	4.5
TOTAL ASSETS	208.0	
EQUITY AND LIABILITIES:		
Equity		
(a) Share capital (face value Rs. 100)	12.0	50.4
(b) Other equity	141.0	Not applicable
Non-current liabilities		



(a) Financial liabilities – Borrowings	20.0	20.0
Current liabilities		
(a) Financial liabilities – Trade payables	28.0	28.0
(b) Provision for warranties	3.0	3.0
(c) Current tax liabilities	4.0	4.0
TOTAL EQUITY AND LIABILITIES	208.0	

Other information:

Following is the statement of contingent liabilities of S Ltd. as on 1st January, 20X7:

Particulars	Fair value (Rs. in crore)	Remarks
Law suit filed by a customer for a claim of Rs. 2 crore	0.5	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Any amount which would be paid in respect of law suit will be tax deductible.
Income tax demand of Rs. 7 crore raised by tax authorities; S Ltd. has challenged the demand in the court.	2.0	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

In relation to the above-mentioned contingent liabilities, S Ltd. has given an indemnification undertaking to H Ltd. up to a maximum of Rs. 1 crore. Rs. 1 crore represents the acquisition date fair value of the indemnification undertaking. Any amount which would be received in respect of the above undertaking shall not be taxable.

The tax bases of the assets and liabilities of S Ltd. is equal to their respective carrying values being recognised in its Balance Sheet. Carrying value of non-current asset held for sale of Rs. 4 crore represents its fair value less cost to sell in accordance with the relevant Ind AS.

In consideration of the additional stake purchased by H Ltd. on 1st January, 20X7, it has issued to the selling shareholders of S Ltd. 1 equity share of H Ltd. for every 2 shares held in S Ltd. Fair value of equity shares of H Ltd. as on 1st January, 20X7 is Rs. 10,000 per share.

On 1st January, 20X7, H Ltd. has paid Rs. 50 crore in cash to the selling shareholders of S Ltd. Additionally, on 31st March, 20X9, H Ltd. will pay Rs. 30 crore to the selling shareholders of S Ltd. if return on equity of S Ltd. for the year ended 31st March, 20X9 is more than 25% per annum. H Ltd. has estimated the fair value of this obligation as on 1st January, 20X7 and 31st March, 20X7 as Rs. 22 crore and Rs. 23 crore respectively. The change in fair value of the obligation is attributable to the change in facts and circumstances after the acquisition date. Quoted price of equity shares of S Ltd. as on various dates is as follows:

Date	Quoted price
As on November, 20X6	Rs. 350 per share
As on 1st January, 20X7	Rs. 395 per share
As on 31st March, 20X7	Rs. 420 per share

On 31st May, 20X7, H Ltd. learned that certain customer relationships existing as on 1st January, 20X7, which met the recognition criteria of an intangible asset as on that date, were not considered during the accounting of business combination for the year ended 31st March, 20X7. The fair value of such customer relationships as on 1st January, 20X7 was Rs. 3.5 crore (assume that there are no temporary differences associated with customer relations; consequently, there is no impact of income taxes on customer relations).

On 31st May, 20X7 itself, H Ltd. further learned that due to additional customer relationships being developed during the period 1st January, 20X7 to 31st March, 20X7, the fair value of such customer relationships has increased to Rs. 4 crore as on 31st March, 20X7.



On 31st December, 20X7, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and that more information is not obtainable.

H Ltd. and S Ltd. are not related parties and follow Ind AS for financial reporting. Income tax rate applicable is 30%.

You are required to provide your detailed responses to the following, along with reasoning and computation notes:

(a) What should be the goodwill or bargain purchase gain to be recognised by H Ltd. in its financial statements for the year ended 31st March, 20X7. For this purpose, measure non-controlling interest using proportionate share of the fair value of the identifiable net assets of S Ltd.

(b) Will the amount of non-controlling interest, goodwill, or bargain purchase gain so recognised in (a) above change subsequent to 31st March, 20X7? If yes, provide relevant journal entries.

(c) What should be the accounting treatment of the contingent consideration as on 31st March, 20X7?

Solution

	Rs. In Lacs
Step - 1 Purchase consideration	
1. FV of existing 15% stake - WN 1	711
2. Cash paid to existing shareholders	5,000
3. FV of shares issued WN 1	27,000
4. FV of deferred consideration	2,200
Total Purchase consideration	34,911

Step 2: FV of Net Assets Acquired

Assets	BV (Rs. in Lacs)	FV (Rs. in Lacs)	Diff (BV-FV)
PPE	4,000	9,000	(5,000)
Intangible Assets	2,000	3,000	(1,000)
Inventories	10,000	35,000	(25,000)
Trade Receivables	2,000	2,000	—
Cash	2,000	2,000	—
Other current assets	400	400	—
NCA Held for Sale* [WN-2]	400	400	—
Indemnification Assets	—	100	No DT impact
Total Assets	20,800	51,900	(31,000)
Liabilities			
Borrowings	(2,000)	(2,000)	—
Trade Payables	(2,800)	(2,800)	—
Provision for Warranties	(300)	(300)	—
Current Tax Liabilities	(400)	(400)	—
FV of Lawsuit	—	(50)	50
FV of Tax Demand	—	(200)	—
Deferred Tax Liability (WN)	—	(9,285)	—
Total Liabilities	(5,500)	(15,035)	50
Net		36,865	(30,950)
NCI @ 40%		14,746	

Step 3 – Computation of Goodwill



A	FV of Net Asset [Step 2]	36,865
B	Purchase consideration [Step 1]	34,911
	Value of NCI [Step 2]	14,746
	Total B	49,657
	Goodwill B-A	12,792

	Working Note			
1	No of shares in S Ltd held by H Ltd	No	Rate on 1st Jan	Amount
	Total shares in S [12,00,00,000/100]	12,00,000		
	FV of Existing stake - 15%	1,80,000	395	7,11,00,000
	Purchased on 1st Jan - 45%	5,40,000		
	No of shares issued by H Ltd (5,40,000/2)	2,70,000	10,000	2,70,00,00,000

2 Existing stake is valued using market price available on date of acquisition

3 As per Ind AS 103, the acquirer should recognise the contingent liabilities at fair value even if the payment of the same is not probable. Hence, the Contingent liabilities have been recognised at fair value on date of acquisition at 2.5 crores.

4 Ind AS 103 requires recognition of indemnification assets on date of acquisition. Since S Ltd has given an undertaking to indemnify H Ltd to the extent of 1 crore, the same is recognised as an asset.

5 As an exception to the fair value rule, Non Current assets held for sale are recognised as per Ind AS 105 i.e. at FV less costs to sell. Accordingly NCA held for sale are recognised at 4 crores.

6 The contingent consideration is recognised at Fair value on date of acquisition.

7 Customer relationships have not been recognised on 1st of Jan (date of acquisition) since no information is available on that date. The asset will be accounted during the measurement period based on information obtained about conditions existing on acquisition date.

8 Deferred tax has been recognised for differences arising due to fair valuation. No deferred tax is recognised on contingent tax liability. Since the indemnification asset is not taxable, there is no deferred tax consequence.

Computation of Deferred Tax

Total of Temporary difference	(30,950)
Tax Rate	30%
Deferred Tax Liability	(9,285)

b) Measurement Period

--	--	--

Value of customer list as on 1st Jan	350	
[Value determined on 1st May]		
Accounting entry to update the values		
Customer Relationship Dr.	350	
To Goodwill [60%]		210
To NCI [40%]		140

Since the value of assets have increased, the impact would be reduction of goodwill for parent and increase in share of NCI.

The adjustment to values of assets and goodwill /nci will be done retrospectively. Hence, the values on 31st March 20X7 will be restated in the current period.

As per Ind AS 103, an entity may restate amounts which are recognised provisionally as on the date of acquisition. The restatement must be completed in the measurement period up to a maximum of 1 year from date of acquisition

Assets and liabilities may be adjusted based on information available for the conditions existing on the date of acquisition. Any changes in value due to conditions arising after date of acquisition is not adjusted. Hence, the increase in customer relationship in the period 1-Jan and 31-Mar-X7 will not be adjusted. Also as per Ind AS 38, self generated customer relationship cannot be recognised.

C) Increase in FV of contingent consideration

Since H Ltd has an obligation to pay cash, the contingent consideration is a financial liability. Contingent consideration will be measured at FV at every reporting period. As on 31st March the FV is 23 crores as compared to 22 crores on date of acquisition. The increase in FV will be recognised in P&L.

P&L Dr.	100	
To Liability for contingent consideration		100

9. Illustration – Common control transaction

AX Ltd. and BX Ltd. amalgamated from 1st January, 20X2. A new Company ABX Ltd. with shares of Rs. 10 each was formed to take over the businesses of the existing companies.

Summarized Balance Sheet as on 31-12-20X1

ASSETS	AX(000)	BX(000)
Non Current Assets		
Property, Plant and Equipment	8,500	7,500
Financial assets		
Investment	1,050	550
Current assets		
Inventory	1,250	2,750
Financial assets		
Trade receivables	1,800	4,000
Cash and Cash equivalent	450	400
Total	13,050	15,200
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs. 10 each)	6,000	7,000
Other equity	3,050	2,700
Liabilities		
Non-current liabilities		
Financial liabilities		



Borrowings (12% Debentures)	3,000	4,000
Current liabilities		
Financial liabilities		
Trade payables	1,000	1,500
Total	13,050	15,200

ABX Ltd. issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies. Also the new debentures were issued in exchange of the old series of both the companies.

Prepare a note showing purchase consideration and discharge thereof and draft the Balance Sheet of ABX Ltd assuming that it is a common control transaction.

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

Assets	AX Ltd. ('000)	BX Ltd. ('000)
Property, Plant and Equipment	9,500	1,000
Inventory	1,300	2,900
Fair value of the business	11,000	14,000

Solution

Since it's a common control transaction, we will consider book value of assets.

Computation of Net Assets

Particulars	Book Value AX	Book Value BX	Total
PPE	8,500	7,500	16,000
Inventory	1,250	2,750	4,000
Investments	1,050	550	1,600
Trade Receivables	1,800	4,000	5,800
Cash	450	400	850
Total Assets	13,050	15,200	28,250
Borrowings	3,000	4,000	7,000
Trade Payables	1,000	1,500	2,500
Total Liabilities	4,000	5,500	9,500
Net Assets	9,050	9,700	18,750
Reserves	AX	BX	Total
GR	1,500	2,000	3,500
P&L	1,000	500	1,500
IAR	500	100	600
EPR	50	100	150
Total Reserves	3,050	2,700	5,750
Purchase Consideration	6,000	7,000	13,000
Shares to be issued in ratio of Net Assets	$\frac{13,000 \times 9,050}{18,750}$	$\frac{13,000 \times 9,700}{18,750}$	
	6,274.67	6,725.33	13,000

The balance sheet can be prepared by adding the book values of both entities.

Balance Sheet of ABX Ltd	
Assets	
Non Current Assets	
- Property, Plant & Equipment	16,000
- Financial Assets	
Investments	1,600



Current Assets	
Inventory	4,000
Financial Assets	
- Trade Receivable	5,800
- Cash & Cash eq.	850
Total Assets	28,250
Equity & Liabilities	
Equity	
- Equity share capital	13,000
- Other Equity	5,750
Non Current Liabilities	
- Financial Liabilities	
12% Debentures	7,000
Current Liabilities	
- Financial Liabilities	
Trade payables	2,500
	28,250
Note	
Equity Share capital (1300000 shares of Rs. 10 each)	13,000
Other equity	
General Reserve	3,500
P&L	1,500
Investment Allowance reserve	600
Export Profit reserve	150
	5,750

10. Illustration

Maxi Mini Ltd. has 2 divisions - Maxi and Mini. The draft information of assets and liabilities as on 31st October X1 is given below.

Particulars	Maxi Division	Mini Division	Total (₹ in crores)
Property, Plant and Equipment			
Cost	600	300	900
Less: Depreciation	(500)	(100)	(600)
W.D.V. (A)	100	200	300
Current Assets	400	300	700
Less: Current Liabilities	(100)	(100)	(200)
Net Current Assets (B)	300	200	500
Total Assets (A + B)	400	400	800
Financed by:			
Loan Funds (secured on PPE)	–	100	100
Own Funds:			
Equity Share Capital (₹10 per share, fully paid)	–	–	50
Other Equity	–	–	650
Total Own Funds (B)	?	?	700
Total (A + B)	400	400	800



It is decided to form a new company Mini Ltd. to take over the assets and liabilities of Mini division.

Accordingly, Mini Ltd. was incorporated to take over at Balance Sheet figures, the assets and liabilities of that division. Mini Ltd. is to allot 5 crore equity shares of Rs. 10 each in the company to the members of Maxi Mini Ltd. in full settlement of the consideration. The members of Maxi Mini Ltd. are therefore to become members of Mini Ltd. as well without having to make any further investment.

(a) You are asked to pass journal entries in relation to the above in the books of Maxi Mini Ltd. and Mini Ltd. Also show the Balance Sheets of the 2 companies as on the morning of 1st November, 20X2, showing corresponding previous year's figures.

(b) The directors of the 2 companies ask you to find out the net asset value of equity shares pre and post demerger.

(c) Comment on the impact of demerger on "share holders wealth".

Solution

- This is a case of demerger under common control (shareholders remain the same).
- Assets and liabilities of the Mini Division will be transferred to the new company, Mini Ltd., at their book values as per scheme.

JE in books of Maxi Mini Ltd		
Provision for Depreciation Dr.	100	
Current Liabilities Dr.	100	
Loan Funds Dr.	100	
Loss on Reconstruction (RE/CR) Dr	300	
To PPE		300
To Current Assets		300
JE in the Books of Mini Ltd (Assuming common control)		
PPE Dr.	200	
Current Assets	300	
To Current Liabilities		100
To Loan		100
To Equity Share Capital		50
To capital reserve		250
(Being assets and liabilities taken over from maxi mini ltd)		
Net Asset value per equity share	Maxi Mini	Mini
Pre demerger		
Shareholder's equity / Net Assets	700	
No of shares	5	
NAV per share	140	
Post demerger		
Shareholder's equity [700-300] / [50+250]	400	300
No of shares	5	5
Value per share	80	60



c) The NAV per share in the demerged company (Maxi mini) is Rs. 140. After demerger the shareholders hold share in demerged company with NAV of Rs. 80 and in the resulting company (mini) of Rs. 60. Hence the shareholder's wealth has not changed.

11. Illustration

Company X is engaged in the business of exploration & development of Oil & Gas Blocks. Company X currently holds participating interest (PI) in below mentioned producing Block as follows:

Block Name	X	Y	Z	Total
AWM/01		30%	60%	10% 100%

For the above Block, Company X, Y & Z has entered into unincorporated Joint Venture.

Company Y is the Operator of the Block AWM/01. Company X & Company Z are the Joint Operators. Company Y incurs all the expenditure on behalf of Joint Venture and raise cash call to Company X & Company Z at each month end in respect of their share of expenditure incurred in Joint Venture. All the manpower and requisite facilities / machineries owned by the Joint venture and thereby owned by all the Joint Operators.'

For past few months, due to liquidity issues, Company Z defaulted in payment of cash calls to operators. Therefore, company Y (Operator) has issued notice to company Z for withdrawal of their participating right from on 01.04.20X1. However, company Z has filed the appeal with arbitrator on 30.04.20X1.

Financial performance of company Z has not been improved in subsequent months and therefore company Z has decided to withdraw participating interest rights from Block AWM/01 and entered into sale agreement with Company X & Company Y. As per the terms of the agreement, dated 31.5.20X1, Company X will receive 33.33% share & Company Y will receive 66.67% share of PI rights owned by Company Z.

Company X is required to pay Rs. 1 Lacs against 33.33% share of PI rights owned by Company Z.

After signing of sale agreement, Operator (company Y) approach government of India for modification in PSC (Production Sharing Contract) i.e. removal of Company Z from PSC of AWM/01 and government has approved this transaction on 30.6.20X1. Government approval for the modification in PSC is essential given the industry in which the joint operators operate.

Particulars	Company X		Company Z	
	31.5.20X1	30.6.20X1	31.5.20X1	30.6.20X1
Assets				
Non-Current Assets				
Property, Plant & Equipment	5,00,000	10,00,000	1,50,000	3,00,000
Right of Use Asset	1,00,000	2,00,000	10,000	20,000
Development CWIP	50,000	1,00,000	50,000	1,00,000
Financial Assets				
Loan receivable	<u>25,000</u>	<u>50,000</u>	<u>25,000</u>	<u>50,000</u>
Total Non-Current Assets	<u>6,75,000</u>	<u>13,50,000</u>	<u>2,35,000</u>	<u>4,70,000</u>
Current assets				
Inventories	1,00,000	2,00,000	15,000	30,000
Financial Assets				
Trade receivables	1,50,000	3,00,000	50,000	1,00,000
Cash and cash equivalents	2,00,000	4,00,000	1,00,000	2,00,000



Other Current Assets	<u>2,25,000</u>	<u>50,000</u>	<u>25,000</u>	<u>50,000</u>
Total Current Assets	<u>6,75,000</u>	<u>9,50,000</u>	<u>1,90,000</u>	<u>3,80,000</u>
Total Assets	<u>13,50,000</u>	<u>23,00,000</u>	<u>4,25,000</u>	<u>8,50,000</u>
Equity and Liabilities				
Equity				
Equity share capital	3,00,000	3,00,000	1,00,000	1,00,000
Other equity	<u>2,00,000</u>	<u>3,00,000</u>	<u>75,000</u>	<u>2,50,000</u>
Total Equity	<u>5,00,000</u>	<u>6,00,000</u>	<u>1,75,000</u>	<u>3,50,000</u>
Liabilities				
Non-Current Liabilities				
Provisions	4,00,000	8,00,000	1,00,000	2,00,000
Other Liabilities	<u>1,50,000</u>	<u>3,00,000</u>	<u>50,000</u>	<u>1,00,000</u>
Total Non-Current Liabilities	<u>5,50,000</u>	<u>11,00,000</u>	<u>1,50,000</u>	<u>3,00,000</u>
Current Liabilities				
Financial Liabilities				
Trade Payables	<u>3,00,000</u>	<u>6,00,000</u>	<u>1,00,000</u>	<u>2,00,000</u>
Total Current Liabilities	<u>3,00,000</u>	<u>6,00,000</u>	<u>1,00,000</u>	<u>2,00,000</u>
Total Liabilities	<u>13,50,000</u>	<u>23,00,000</u>	<u>4,25,000</u>	<u>8,50,000</u>

Additional Information:

1. Fair Value of PPE & Development CWIP owned by Company Z as per Market participant approach is Rs. 5,00,000 & Rs. 2,00,000 respectively.
2. Fair Value of all the other assets and liabilities acquired are assumed to be at their carrying values (except cash & cash equivalent). Cash and cash equivalents of Company Z are not to be acquired by Company X as per the terms of agreement.
3. Tax rate is assumed to be 30%.
4. As per Ind AS 28, all the joint operators are joint ventures whereby each parties that have joint control of the arrangement have rights to the net assets of the arrangement and therefore every operator records their share of assets and liabilities in their books.

You need to determine the following:

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

Solution

Under **Ind AS 103**, a business is defined as an integrated set of activities and assets capable of being conducted and managed to generate goods, services, investment income, or other income from ordinary activities. For a transaction to qualify as a **business combination**, the acquirer must obtain control over an integrated set of assets and activities that involve more than just a collection of assets or a mix of assets and liabilities. A business must include at least one **input** and a **substantive process** that together contribute to generating **outputs**.

In the given case, **Company X** acquired participating rights from **Company Z** in the producing Block **AWM/01**. Since this block is already in production, an **output exists**. Moreover, all **manpower, machinery, and necessary facilities** are owned by the Joint Venture and managed by Joint Operators, ensuring that both **inputs and processes** are in place. These elements are critical to continuing production, making the acquisition a **business combination** under **Ind AS 103**. Therefore, the acquisition should be accounted for using the **acquisition method** as prescribed by the standard.



The **acquisition date** under **Ind AS 103** is the date when the acquirer **obtains control** over the acquiree. This is generally when consideration is legally transferred, assets are acquired, and liabilities are assumed. However, the acquisition date may be earlier or later, depending on **substantive approvals** or other controlling factors. In this case, **Government of India (GOI) approval** is a critical requirement for **Company X** to gain control over **Company Z's** operations. Since **GOI approval is a substantive process**, the acquisition cannot be considered complete before this approval is received. Therefore, the **acquisition date is 30.06.20X1**, aligning with the date when the required regulatory approval was obtained.

Determination of G/w or Capital reserve					
Step - 1					
Purchase Consideration	1,00,000				
Step 2 - Net Assets acquired [33.33% of Z]	100%	100%	33.33%	33.33%	
	Book Value	Fair Value	Book Value	Fair Value	Diff
Property Plant & equipment	3,00,000	5,00,000	99,990	1,66,650	(66,660)
ROU Asset	20,000	20,000	6,666	6,666	-
Development CWIP	1,00,000	2,00,000	33,330	66,660	(33,330)
Loan Receivable	50,000	50,000	16,665	16,665	-
Inventories	30,000	30,000	9,999	9,999	-
Trade Receivables	1,00,000	1,00,000	33,330	33,330	-
Other Current Assets	50,000	50,000	16,665	16,665	-
Provisions	(2,00,000)	(2,00,000)	(66,660)	(66,660)	-
Other Liabilities	(1,00,000)	(1,00,000)	(33,330)	(33,330)	-
Trade payables	(2,00,000)	(2,00,000)	(66,660)	(66,660)	-
DTL				(29,997)	
Temporary Differences					(99,990)
DTL @ 30%					(29,997)
Net Assets				1,19,988	
Step - 3 Computation of Capital Reserve					
Net Assets at FV	1,19,988				
Purchase Consideration	1,00,000				
Capital Reserve	19,988				



Journal Entries		
Property Plant & equipment Dr.	1,66,650	
ROU Asset	6,666	
Development CWIP	66,660	
Loan Receivable	16,665	
Inventories	9,999	
Trade Receivables	33,330	
Other Current Assets	16,665	
To Provisions		66,660
To Other Liabilities		33,330
To Trade payables		66,660
To Deferred Tax Liability		29,997
To Capital Reserve		19,988
To Cash		1,00,000

1. Balance Sheet

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



Liabilities			
Non-Current Liabilities			
Provisions	8,00,000	66,660	8,66,660
Other Liabilities	3,00,000	33,330	3,33,330
Deferred Tax Liability	_____	29,997	____29,997
Total Non-Current Liabilities	<u>11,00,000</u>		<u>12,29,987</u>
Current Liabilities			
Financial liabilities			
Trade Payables	<u>6,00,000</u>	66,660	<u>6,66,660</u>
Total Current Liabilities	<u>6,00,000</u>		<u>6,66,660</u>
Total Equity and Liabilities	<u>23,00,000</u>		<u>25,16,635</u>

12. Mid Year Acquisition – May-26 – 14 Marks

Panama Pharma Ltd. is a leading company engaged in the manufacturing of generic medicines. The company decided to acquire Bio Gen Research Ltd., a biotech firm specializing in viral vector technology to diversify its portfolio and enter the high-growth vaccine segment.

To achieve this, Panama Pharma Ltd. initially acquired a 30% stake in Bio Gen Research Ltd. for ₹ 15,00,000 on 1st July, 2025.

Subsequently, to gain control, Panama Pharma Ltd. acquired a further 40% stake on 1st January, 2026 for ₹ 24,00,000. On the date of acquiring control (1st January, 2026), the fair value of the previously held 30% equity interest was determined to be ₹ 17,50,000.

The summarized Balance Sheets of both the companies as at 1st January, 2026 were as follows :

Particulars	Bio Gen Research Ltd. (₹)	Panama Pharma Ltd. (₹)
ASSETS		
Non-current Assets		
Property, Plant and Equipment (Labs)	18,00,000	60,00,000
Investments in Bio Gen Research Limited	–	39,00,000
Investments in bonds	10,00,000	–
Current Assets		
Inventories	5,00,000	15,00,000
Financial Assets		
Trade Receivables	4,00,000	8,50,000
Cash and cash equivalent	2,00,000	12,50,000
Total	39,00,000	1,35,00,000
EQUITY AND LIABILITIES		



5,000 Equity share capital (face value ₹ 100 each)	5,00,000	50,00,000
Other reserves	24,00,000	60,00,000
Long term Borrowings	–	15,00,000
Trade payables	10,00,000	10,00,000
Total	39,00,000	1,35,00,000

Additional Information :

(i) Bio Gen Research Ltd. has developed a proprietary vaccine formula known as 'Vax-Shield'. This is a self-generated intangible asset and has not been recognized in the books of Bio Gen Research Ltd. The fair value of 'Vax-Shield' as at 1st January, 2026, is assessed at ₹ 8,50,000.

(ii) The Trade Receivables of Panama Pharma Ltd. include ₹ 1,00,000 due from Bio Gen Research Ltd. for consultancy services provided in December 2025. Bio Gen Research Ltd. has recorded this amount in its Trade Payables.

(iii) During the year, Panama Pharma Ltd. sold goods to Bio Gen Research Ltd. for ₹ 2,00,000. The cost of these goods to Panama Pharma Ltd. was ₹ 1,50,000. As on 1st January, 2026, 40% of these goods remain in the Inventory of Bio Gen Research Ltd.

(iv) The fair value of the assets of Bio Gen Research Ltd. as on 1st January, 2026 was as follows :

Assets	Fair Value (₹)
Property, Plant and Equipment (Labs)	26,00,000
Investment in Bonds	11,50,000

(v) The NCI is to be measured at Fair Value. The Fair Value of NCI on the acquisition date 1st January, 2026 is ₹ 16,00,000.

You are required to :

(i) Pass necessary journal entries in the books of Panama Pharma Ltd. to account for the business combination in accordance with Ind AS 103 as at 1st January, 2026.

(ii) Prepare the Consolidated Balance Sheet of Panama Pharma Ltd. and its subsidiary as at 1st January, 2026, incorporating all necessary adjustments for inter-company balances and unrealized profits. Also provide necessary working notes. Ignore tax implications.

Solution

Working Notes

WN 1: Gain on Re-measurement of Previously Held 30% Interest

Particulars	Amount (₹)
Fair value of 30% interest on acquisition date (1st Jan 2026)	17,50,000
Less: Cost of acquisition of 30% (1st July 2025)	(15,00,000)
Gain on re-measurement (recognised in P&L)	2,50,000

2: Computation of Goodwill on Acquisition Date



Particulars	Amount (₹)
Consideration transferred (for 40% stake)	24,00,000
Fair value of previously held 30% interest	17,50,000
NCI measured at Fair Value	16,00,000
(A) Total	57,50,000
Net Identifiable Assets at Fair Value:	
Book value of Net Assets (5,00,000 + 24,00,000)	29,00,000
Fair value Gain – PP&E (Labs): 26,00,000 – 18,00,000	8,00,000
Fair value uplift – Investment in Bonds: 11,50,000 – 10,00,000	1,50,000
Vax-Shield (self-generated intangible, recognised at FV)	8,50,000
(B) Net Identifiable Assets at FV	47,00,000
Goodwill [(A) – (B)]	10,50,000

WN 3: Unrealised Profit in Inventory

Particulars	Amount (₹)
Goods sold by Panama to Bio Gen during the year	2,00,000
Cost to Panama	1,50,000
Profit = 2,00,000 – 1,50,000	50,000
Unsold portion in Bio Gen's inventory as at 1st Jan 2026 (40%)	40%
Unrealised profit to be eliminated (50,000 × 40%)	20,000

Note : It is assumed that equity method accounting is not applicable on initial acquisition of stake and also sufficient information for using equity method is not given in question.

(i) Journal Entries in Books of Panama Pharma Ltd.

Re-measurement of previously held 30% interest to fair value

Account	Dr (₹)	Cr (₹)
Investment in Bio Gen Research Ltd. A/c Dr.	2,50,000	
To Gain on Re-measurement of Investment (P&L) A/c		2,50,000
[Being: gain on FV re-measurement of previously held 30% stake]		

Acquisition Entry

Account	Dr (₹)	Cr (₹)
Property, Plant and Equipment	26,00,000	
Intangible Assets	8,50,000	
Investment in Bonds	11,50,000	
Inventories*	5,00,000	
Trade Receivable	4,00,000	

Cash & Cash Equivalent	2,00,000	
Goodwill on Consolidation A/c Dr.	10,50,000	
To Trade payables		10,00,000
To Investment in Bio Gen Research Ltd. A/c		41,50,000
To Non-Controlling Interests A/c		16,00,000

*Inventory's book value is considered to be fair value on date of acquisition

Inter-company balance

Account	Dr (₹)	Cr (₹)
Trade Payables (Bio Gen) A/c Dr.	1,00,000	
To Trade Receivables (Panama) A/c		1,00,000
[Being elimination of inter-company receivable/payable for consultancy]		

(Consolidation Elimination) Unrealised profit in inventory

Account	Dr (₹)	Cr (₹)
Other Reserves / Retained Earnings A/c Dr.	20,000	
To Inventories (Bio Gen) A/c		20,000
[Being elimination of unrealised profit in unsold inventory (₹50,000 × 40%)]		

Consolidated Balance Sheet as at 1st January 2026

Particulars	Note	Amount (₹)
ASSETS		
Non-Current Assets		
Property, Plant & Equipment (Labs)	1	86,00,000
Goodwill		10,50,000
Intangible Asset		8,50,000
Financial Assets		
Investment in Bonds (at FV)		11,50,000
Current Assets		
Inventories	2	19,80,000
Financial Assets		
Trade Receivables	3	11,50,000
Cash and Cash Equivalents		14,50,000
TOTAL ASSETS		1,62,30,000
EQUITY & LIABILITIES		
Share Capital		50,00,000
Other Equity / Retained Earnings	4	62,30,000

Non-Controlling Interests		16,00,000
Non-Current Liabilities		
Long-term Borrowings		15,00,000
Current Liabilities		
Trade Payables	5	19,00,000
TOTAL EQUITY & LIABILITIES		1,62,30,000

Notes to Consolidated Balance Sheet

Note	Particulars	Panama Ltd. (₹)	Bio Gen Ltd. (₹)	Adjustments (₹)	Total (₹)
1	PP&E	60,00,000	18,00,000	8,00,000	86,00,000
2	Inventories	15,00,000	5,00,000	(20,000)	19,80,000
3	Trade Receivables	8,50,000	4,00,000	(1,00,000) (Inter-company eliminated)	11,50,000
4	Other Equity	60,00,000	—	2,50,000 (Gain on remeasurement) (20,000) (Unrealised profit)	62,30,000
5	Trade Payables	10,00,000	10,00,000	(1,00,000) (Inter-company eliminated)	19,00,000

