

1. Acquirer obtains control of a business

Steps (acquisition method)	Special situations
1. Identify the acquiring enterprise	1. Contingent consideration
2. Determine the acquisition date	2. Acquisition in stages (step acquisition)
3. Determine purchase consideration	3. Reverse acquisition
4. FV of identifiable net assets + NCI	4. Acquisition without consideration (covered in Section 11)
5. Goodwill / Capital reserve	5. Exceptions to recognition & measurement principles

Acquiring enterprise

Who	Entity that obtains control (Ind AS 110: power + variable returns + ability to use power to affect returns)
Legal vs accounting	Accounting acquirer may differ from legal acquirer (reverse acquisition)
Indicators (Addition)	Larger relative voting rights · largest minority block · controls board / senior management · pays a premium · larger in size · initiated the deal. A newly formed entity issuing shares is not automatically the acquirer.

Acquisition date

1	Date on which control is obtained
2	Generally the closing date: consideration transferred, assets acquired, liabilities assumed. Can be earlier/later if a written agreement transfers control on another date.
3	Relevant date for consolidation, FV measurement and goodwill Example: Agreement 1 Apr → regulator approval 15 Jun → board control handed over 1 Jul. Acquisition date = 1 Jul.

2. Purchase consideration

All components at **acquisition-date fair value**.

Component	Important points
FV of assets transferred to former owners	Gain/loss on FV vs carrying amount → P&L. If the asset stays within the combined group (e.g. transferred to the acquiree), use carrying amount; no gain.
FV of liabilities incurred	Deferred payment at present value. Example: ₹110 payable after 1 year, discount rate 10% → PC 100.
FV of contingent consideration	FV on acquisition date (probability-weighted), even if payment is not probable. Classify as liability or equity (Ind AS 32).
Equity interests issued	At FV on acquisition date (not agreement date).
FV of existing stake (step acquisition)	Remeasure to FV; gain/loss → P&L. If held at FVOCI (equity), gain goes to OCI, no recycling.
SBP replacement awards	Only the pre-combination portion, at market-based measure
Acquisition-related costs	Not part of PC → expense in P&L. Share issue costs → Reduced from equity. Debt issue costs → included in EIR of the liability.

Computation of Goodwill / Capital reserve

Step	Item	Amount
1	Purchase consideration	A
2	NCI @ FV or proportionate share of FV of INA	B
3	FV of previously held interest	C
	Total	D = A + B + C
4	FV of identifiable net assets (including cont. liab)	E
	Goodwill / Bargain purchase (-)	F = D - E

Bargain purchase first reassess identification and measurement.

If clear evidence of the reason → **OCI**, accumulated in equity as capital reserve;
No clear evidence → **directly in equity** as capital reserve.

NCI choice: PSNA or Share in FV of INA.

3. Accounting entries

Accounting entry in CFS / business purchase	Accounting entry in SFS (share purchase)
Dr Identifiable assets (FV)	Dr Investment in subsidiary
Dr Goodwill	Cr Equity / Assets transferred / Liability incurred
Cr Identifiable liabilities (FV)	
Cr Equity / Assets transferred / Liability incurred	
Cr NCI	
Cr Capital reserve (bargain purchase)	

4. Exceptions / special situations

Area	Treatment	Example
Contingent liability	Recognise at FV if a present obligation from past events and FV is reliable, even if outflow is not probable. Possible obligation / not reliably measurable → ignore.	Lawsuit (present obligation), FV 30, outflow 30% likely → recognise 30, although Ind AS 37 alone would not.
Contingent assets	Not recognised.	Acquiree's claim against a supplier → ignore.
Income taxes	Ind AS 12, not FV. Deferred tax on FV adjustments; No DTL on goodwill.	
Post-retirement obligations	Follow Ind AS 19.	
Indemnification assets	If the seller indemnifies the acquirer Recognise on the same basis as the indemnified item. Asset cannot be more than liability	FV of Lawsuit : 10 Seller will indemnify : 12 Indemnification Asset : 10
Non-current assets held for sale	Ind AS 105: FV less costs to sell.	FV 100, cost to sell 5 → 95.

Area	Treatment	Example
Leases – acquiree is lessee	Lease liability = PV of remaining lease payments as if a new lease. ROU = lease liability ± favourable/unfavourable terms. No recognition for short-term (≤ 12 months remaining) or low-value leases.	PV of rent 500; rent below market by PV 50 → liability 500, ROU 550.
Leases – acquiree is lessor	Operating lease: measure the leased asset at FV considering lease terms. No separate asset/liability for off-market terms.	Building FV 1,000 incl. effect of below-market lease → 1,000 only.
Assembled workforce	Not an identifiable intangible → subsumed in goodwill.	Value of trained team 50 → part of goodwill.
Reacquired rights	Intangible measured on remaining contractual term, ignoring renewals. Settlement gain/loss only if contract terms are favourable/unfavourable vs market.	
Settlement of pre-existing relationship	Non-contractual (e.g. litigation) → FV. Contractual → lower of (a) off-market element and (b) stated settlement amount. Gain/loss to P&L; excluded from PC.	Supply contract unfavourable to P by 20; cancellation penalty 15 → loss 15; PC reduced by 15.
SBP – replacement awards	Ind AS 102, market-based measure (MBM). Pre-combination (part of PC): MBM of acquiree award × completed vesting ÷ greater of (total vesting period, original vesting period). Post-combination (expense): MBM of replacement – pre-combination portion.	Original award MBM ₹300, replacement award MBM ₹360. Completed 1 year; original term 3 years; new total term 4 years. Purchase consideration (pre-combination): $300 \times \frac{1}{4}$ (the greater of 4 and 3) = ₹75 Post-combination expense: $360 - 75 = ₹285$, i.e. ₹95 p.a. over the remaining 3 years

Area	Treatment	Example
SBP – not replaced	No expense. Vested → part of NCI at MBM. Unvested → MBM × completed ÷ greater of (total, original) in NCI; balance expensed post-combination.	
Future payments to shareholders	In capacity of employee (forfeited on leaving) → employee cost. In capacity of shareholder → PC.	₹50 paid to seller-CEO only if she stays 2 years → expense over 2 years.

5. Subsequent accounting

Area	Treatment
Contingent liability	Higher of (a) amount as per Ind AS 37 and (b) initial amount less cumulative income recognised under Ind AS 115.
Reacquired rights	Amortised over remaining contractual period.
Contingent consideration	Equity → no remeasurement. Liability → FV at each period end, change to P&L. <i>Change from facts existing at acquisition date (within 1 yr) → adjust goodwill; from post-acquisition events (target met) → P&L.</i>
Indemnification assets	Same basis as indemnified liability, subject to collectability. Derecognise only when collected, sold or right is lost.

6. Measurement period

Area	Treatment
Provisional amounts	If FV cannot be finalised on acquisition date, use provisional amounts for initial accounting.
Finalisation period	Maximum 1 year from acquisition date.
Subsequent information	Recognise / remeasure assets & liabilities; adjust goodwill / capital reserve. <i>Retrospective: comparatives revised, including extra depreciation.</i>
Important	New information must relate to conditions existing on the acquisition date.
After 1 year	<i>Only error correction under Ind AS 8.</i>

7. What is a business?

Inputs	→ Substantive process	→ Output (not mandatory)
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Must have at least an input and a substantive process that together significantly contribute to the ability to create outputs. No substantive process → **asset acquisition**.

Asset acquisition accounting: allocate cost to assets/liabilities on relative FV; no goodwill; transaction costs capitalised; no deferred tax on initial recognition.

Asset concentration test (optional, deal-by-deal)

Head	Calculation
Gross assets acquired	FV of consideration + FV of NCI + FV of previously held interest + liabilities assumed (other than DTL) – cash, DTA and goodwill arising from DTL.
Single identifiable asset	Asset or group of similar assets recognised as one (e.g. land + building; tangible asset + attached intangible). <i>Cannot combine tangible with intangible classes, or financial with non-financial.</i>
Test	If substantially all FV of gross assets is in one asset / group → not a business. (90%)
Accounting	Test met → asset acquisition. Test failed → do the full business assessment. Example: Gross assets 1,000; one office building 960 (96%) → asset acquisition.

8. Reverse acquisition

Meaning	Legal acquirer = entity issuing shares. Accounting acquirer = entity whose owners control the combined entity.
Example	A Ltd has 200 shares. It issues 800 shares to B Ltd's shareholders in exchange for their B shares. B's owners hold 80% → B Ltd is the accounting acquirer.
Consolidation process	1. Carrying amounts of assets, liabilities & equity of B (accounting acquirer). 2. Notional shares B would issue to give A's owners the same %; compute PC & goodwill. 3. Fair values of A's (accounting acquiree) assets & liabilities. 4. Normal consolidation process.

Equity presentation	Retained earnings & comparatives = B's. Issued capital amount = B's capital + PC; number & type of shares = A's (legal parent). EPS: pre-combination shares = B's shares × exchange ratio. B shareholders who do not exchange → NCI.
Important	Generally the larger entity is the accounting acquirer.

Example: B had 100 shares (FV ₹40). Exchange 8 : 1. Notional: $100 \div (100 + x) = 80\% \rightarrow x = 25$ shares. PC = $25 \times 40 = \text{₹}1,000$. If FV of A's net assets = ₹850 → goodwill ₹150.

9. Common control transactions

Meaning	Combining entities ultimately controlled by the same party before and after the combination, and control is not transitory. E.g. two subsidiaries of A Ltd merge.
Method	Pooling of interests (Appendix C), not fair value. - Assets & liabilities at book values; only adjustments to harmonise accounting policies. - Shares issued at nominal value; assets other than cash at FV. - Difference between consideration and share capital of the transferor → capital reserve, presented separately. - No goodwill or bargain purchase gain. - Identity of acquiree's reserves preserved in acquirer's books. - Comparatives restated as if combination occurred from the start of the earliest period presented (or later date when common control began).
Example	Example: Transferor: share capital 100, general reserve 50, P&L 30. Transferee issues shares of nominal ₹80 + cash ₹10 = 90. Capital reserve = $100 - 90 = 10$. General reserve 50 and P&L 30 carried as they are.

10. Demerger accounting

Meaning	Splitting of a company into more than one entity: original = demerged company; new = resulting company.
Demerged company	Dr Liabilities transferred (book value) Dr Investment in shares of resulting company (if shares issued to the company) Cr Assets transferred (book value) Dr/Cr Capital reserve (gain/loss on transfer)

Shares issued to shareholders	No investment recognised by demerged company. Net book value transferred is a distribution to owners → debit reserves. Example: Assets BV 500, liabilities 200 transferred; shares to shareholders → Dr Liabilities 200, Dr Reserves 300 / Cr Assets 500.
Common control	Usually a common control transaction → book values. If not under common control, Ind AS 10 Appendix A: dividend payable at FV of net assets; difference to P&L on settlement.
Resulting company	Acquisition accounting as per Ind AS 103 (generally pooling of interests).

11. Topics missed in the original note

Topic	Key point
Combination without consideration	Control via investee buyback, lapse of minority veto rights, or contract alone. Use FV of acquirer's existing interest in place of consideration. Contract-only: all equity of acquiree shown as NCI. Example: Investee buys back shares; P's stake rises 45% → 55%, nothing paid → Goodwill = FV of 55% + NCI – net assets.
What is part of the combination	Exclude settlement of pre-existing relationships, remuneration to employees/sellers, and reimbursement of acquirer's costs by the acquiree.
Classification at acquisition date	Re-classify financial assets, hedges, embedded derivatives on acquisition-date conditions. Exceptions: leases and insurance contracts → terms at inception.
Receivables	At FV; no separate loss allowance on day 1. Example: Gross 100, expected collection 92 → recognise 92.
Intangibles not on acquiree's BS	Recognise if separable or contractual-legal (brands, customer lists, order backlog), even if never recorded by the acquiree.
Goodwill after recognition	Not amortised; annual impairment test (Ind AS 36). Capital reserve not reversed.

Topic	Key point
Step acquisition – OCI items	OCI on previously held interest treated as if disposed: recycle where permitted (e.g. FCTR of associate); otherwise transfer within equity.
Loss of control	Ind AS 110: derecognise subsidiary's net assets, goodwill and NCI; remeasure retained interest at FV; gain/loss in P&L.