

Existing Standards

- * Under previous IGAAP:- AS 14” Accounting for Amalgamation”
- * Under Ind AS: Ind AS 103” Business Combination”

Accounting for Amalgamation

AS -14

Amalgamation

- * Amalgamation are of two types :
 - In the nature of Purchase
 - In the nature of Merger

Merger

Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions;

- * All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.*
- * Share holders holding not less than 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company by virtue of the amalgamation.*

Merger cont...

- * The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
- * The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

Merger cont...

- * No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Purchase

- * Amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions specified in merger.

Pooling of Interest

- * When an amalgamation is considered to be an amalgamation in the nature of merger, it should be accounted for under the pooling of interests method
- * Pooling of interests is a method of accounting for amalgamations the object of which is to account for the amalgamation as if the separate businesses of the amalgamating companies were intended to be continued by the transferee company. Accordingly, only minimal changes are made in aggregating the individual financial statements of the amalgamating companies.

Accounting for Pooling of Interest

- * Under the pooling of interests method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the adjustments required in paragraph 11).
- * Para 11:- If, at the time of the amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

Accounting for Purchase

- * Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Accounting for Purchase

- * Any excess of the amount of the consideration over the value of the net assets of the transferor company acquired by the transferee company should be recognised in the transferee company's financial statements as goodwill arising on amalgamation. If the amount of the consideration is lower than the value of the net assets acquired, the difference should be treated as Capital Reserve.
- * The goodwill arising on amalgamation should be amortised to income on a systematic basis over its useful life. The amortisation period should not exceed five years unless a longer period can be justified.

Treatment of Reserve on Amalgamation

- * If the amalgamation is an 'amalgamation in the nature of merger', the identity of the reserves is preserved and they appear in the financial statements of the transferee company in the same form in which they appeared in the financial statements of the transferor company.
- * If the amalgamation is an 'amalgamation in the nature of purchase', the identity of the reserves, other than the statutory reserves is not preserved.

Amalgamation after balance sheet date

Under Non Ind AS Scenario

- * If the financial statements are pending approval by the members in General Meeting, then it is possible to give effect to the amalgamation in case the appointed date is before the end of the financial year.
- * If the financial statements are already approved by the members in general meeting then the effect will be given only in the next set of financial statements.

Acquisition under Business Transfer Agreement (BTA)

- * Acquisition of business under BTA is not covered for accounting under AS-14.
- * Such acquisitions are not covered under any specific standard except that the provisions of AS-10 would apply to such acquisitions to a limited extent.
- * As per AS-10, the value of the consideration paid is to be apportioned on a fair basis over the assets and liabilities.

Acquisition under Business Transfer Agreement (BTA) contd ...

Therefore in the case of acquisitions of business under BTA, where specific value of individuals components of the business are not identified, normally the accounting would be as follows

- * All current assets including would be accounted at their realisable value.
- * All liabilities would be accounted at their respective fair value
- * The balance consideration would apportioned over the fair value of the PPE.
- * If the balance consideration is higher than the aggregate of the fair value of PPE then the PPE would be accounted at fair and the difference would be accounted as Goodwill or other Intangible asset, if identifiable .

Business Combination

Ind AS 103

Business Combination

- * Ind AS 103 applies to a transaction or other event that meets the definition of a business combination.
- * This Ind AS does not apply to:
 - the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
 - the acquisition of an asset or a group of assets that does not constitute a business
 - The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in Ind AS 110, *Consolidated Financial Statements*, of an investment in a subsidiary that is required to be measured at fair value through profit or loss.

Identifying a business combination

- * An entity shall determine whether a transaction or other event is a business combination by applying the definition in this Ind AS, which requires that the assets acquired and liabilities assumed constitute a business.
- * If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition.

Acquisition Method

- * An entity shall account for each business combination by applying the acquisition method.
- * Applying the acquisition method requires:
 - identifying the acquirer;
 - determining the *acquisition date*;
 - recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
 - recognising and measuring goodwill or a gain from a bargain purchase.

Acquisition date

- * The acquirer shall identify the acquisition date, which is the **date on which it obtains control** of the acquiree.
- * The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date.

Acquisition methods

- * Ind AS 103 applies to all methods of acquisition whether through Merger, BTA, Slump Exchange or any other method which results in the acquisition of business by an acquirer from an acquiree.
- * Therefore unlike AS-14, Ind AS 103 applies to all forms of acquisitions so long as it satisfies the test of business and acquirer and acquiree being distinct.

Accounting nuances

- * Ind AS 103 requires **mandatory use of purchase method** of accounting for business combination except for common control transaction.
- * It also mandates recording of all assets acquired and liabilities assumed to be recorded at **fair value**.
- * Many intangibles assets which were originally subsumed under goodwill under current Indian GAAP; will now be reflected on the balance sheet – for e.g. in process research, customer relationship, brands etc.
- * It is interesting to know that contingent liabilities which are usually not reflected on balance sheet will also get fair valued and recorded in the balance sheet at fair value.

Accounting for Goodwill

- * Under Indian old GAAP, there was diversity in practice with respect to goodwill accounting. Goodwill arising in amalgamation was required to be amortised whereas it was accounting policy choice in case of business acquisition or acquisition of subsidiary.
- * In Ind AS, goodwill is not allowed to be amortised. It is always tested for impairment.
- * Therefore all the intangible assets having no finite life are required to be subjected to Impairment testing.

Common Control Accounting

- * Ind AS 103 prohibits use of pooling of interest method for business combination.
- * Pooling method is permitted only for common control transactions (Appendix C of Ind AS 103).
- * *Common control business combination* means a business combination involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Common Control Accounting

Pooling of Interest method involve:

- The assets and liabilities of the combining entities are reflected at their carrying amounts,
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities,
- Financials of prior periods should be restated as if the business combination had occurred from the beginning of the preceding period in the financial statements, irrespective of the actual date of the combination.
- If business combination had occurred after that date, the prior period information shall be restated only from that date,
- Consideration may consist of securities, cash or other assets. Securities issued should be recorded at nominal value. Assets other than cash should be measured at fair value.

Common Control Accounting

- The balance of the retained earnings appearing in the financial statements of the transferor is aggregated with the corresponding balance appearing in the financial statements of the transferee. Alternatively, it is transferred to General Reserve, if any.
- The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor.
- **The excess of the consideration over the net book value of assets less liabilities is adjusted in Capital Reserve.**

Accounting for Transaction Costs

- * An acquirer often incurs acquisition-related costs such as costs for the services of lawyers, investment bankers, accountants, valuation experts, and other third parties including due diligence.
- * As such costs are not part of the fair value exchange between the buyer and the seller for the acquired business, they are accounted for as a separate transaction in which payments are made in exchange for services received, and will generally be expensed in the period in which the services are received.
- * This is a significant difference from current practice.

Amalgamation after balance sheet date

Under Ind AS Scenario

- * If the financial statements are pending approval by the members in General Meeting, then it is possible to give effect to the amalgamation in case the appointed date is before the end of the financial year and it can be demonstrated that control has passed effective the appointed date.
- * Else it will be accounted with effect from the date of passing over of the Control which may be as of the effective date.

Acquisition under BTA

- * As explained earlier the acquisition under any method including as per the BTA would be covered under Ind AS 103.
- * Therefore all such acquisitions have to be accounted as per the fair value method of acquisition which is similar to the purchase method under AS-14 done on fair value basis.

Acquisition of control through acquisition of Equity Shares

- * Under the Companies (Accounting Standards) Rules 2006, such acquisitions are not covered under As-14 but are covered under As-13.
- * Under Ind AS the same are covered under Ind AS103 for the purposes of consolidation so long as the aforementioned tests for the applicability of Ind AS 103 are satisfied.
- * This leads to accounting nuances.

Thank You