12. Business Combination and Corporate Restructuring

Answer Sheet

Question : 31

As per Ind AS 103, the acquirer shall identify the acquisition date, which is the date on which it obtains control of the aquiree.

In the above scenario, the acquisition date will the date on which the shares were allotted to the shareholders of Ram Ltd. i.e. 15th June 2002

Although the shareholder approval was obtained on 10 June but the shares were issued only on 15 June and accordingly the 90 will be considered as the market price.

Purchase Consideration = 12000 x 90 = 10,80,000

Question : 32

The accrued rent for straight-lining does not represent a liability and accordingly it is not recorded as a liability on the acquisition date.

However, the rental expenses will be recorded based on straight-lining (which will be computed based on the remaining lease period) for INR 2,300 per year.

Question : 33

Note – The composite Transaction price Rs.400 Lakhs will be allocated in the ratio of fair value.

Amount Rs. In Lakhs

	Fair Value	Allocation of composite transaction price
Plant and Machinery	200	228.57
Furniture	30	34.29
Equipment	50	57.14
License	70	80
	350	400

No goodwill is recognized. Excess of the transaction price over fair value is adjusted in the cost of individual assets.

QUESTION 34 :

No	Particulars	Amount
a)	Consideration transferred	60,000
b)	Add Proportionate value of NCI (25% x Rs.80,000)	20,000

c)	Fair Value of Previously Held Interest	12,500
d)	Less Fair Value of the identifiable new assets acquired	(80,000)
e)	Goodwill	12,500

Note - If we already have control of the acquire (e.g. already own 75% of the equity and purchase the remaining 25%) then this is not the step acquisition.

QUESTION 35:

Calculation of goodwill

No	Particulars	Amount
a)	Consideration transferred	30,000
b)	Less : Fair value of the identifiable net assets acquired	
	(Share Capital + Retained Earnings)	(28,500)
c)	Goodwill	1,500

Journal Entry for consolidation

No	Particulars	Debit	Credit
1)	Tangible Assets A/c Dr.	35,000	
	Inventories A/c Dr.	8,000	
	Receivables A/c Dr.	9,000	
	Goodwill A/c Dr.	1,500	
	To Loan Stock A/c		10,000
	To Payables A/c		13,500
	To Investment in White Ltd.		30,000
2)	Loan Stock (Liabilities) A/c Dr.	5000	
	To Loan Stock (Assets) A/c		5000

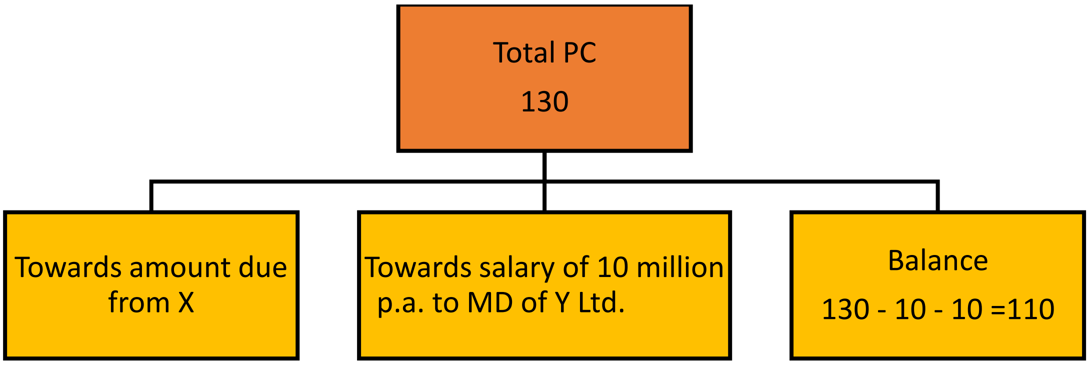
CBS of Black Co as on 31.12.2015

Particulars	Rs.	Rs.
Equity and Liabilities		
Equity		
Ordinary Shares	73,000	
Retained Earnings	30,000	1,03,000
Non Current Liabilities		

Loan Stock (10,000 – 5000)		5,000
Current Liabilities		
Bank Overdraft	3,000	
Payables	24,500	27,500
Total Liabilities		**1,35,500**
Assets		
Non Current Assets		
Tangible Assets		95,000
Intangible Assets – Goodwill		1,500
Current Assets		
Inventories	18,000	
Receivables	17,000	
Cash at Bank	4,000	39,000
Total Assets		**1,35,500**

(First assets, then liabilities)

Question : 36



	Accounting Base	Tax Base	Difference	Deferred Tax Assets (Liabilities)
Tangible Fixed Assets	130	80	-50 (DTL)	-12.50
Intangible Assets	12	5	-7 (DTL)	-1.75
Inventories	25	30	5 (DTA)	1.25
Trade Receivables	18	20	2 (DTA)	0.50
				-12.50

Journal Entry

No	Particulars		Debit	Credit
1)	Tangible Fixed Assets A/c	Dr.	130	

	Intangible Assets A/c	Dr.	12	
	Inventories A/c	Dr.	25	
	Trade Receivables A/c	Dr.	18	
	Goodiwll A/c	Dr.	7.5	
	To Trade Payables A/c			30
	To Loan A/c			40
	To Deferred Tax Liabilities A/c			12.50
	To Bank A/c (130-10-10)			110
2)	Trade Payables A/c	Dr.	10	
	To Bank A/c			10
	(Being settlement of pre-existing business transaction)			
3)	Advance Salary A/c	Dr.	10	
	To Bank A/c			10
	(Being advance given to the Managing Director for the service to be rendered during post acquisition period)			

Question 37 :

No	Particulars	Amount
a)	Fair Value of the Consideration Paid (Rs.50 Cr+ Rs.30 Cr)	80 Cr.
b)	Fair Value of the assets acquired net of fair value of liabilities assumed	72 Cr.
c)	Goodwill	8 Cr.

Question 38 :

Case I When goodwill is measured taking non controlling interest at fair value

No	Calculation of Goodwill	Rs.
1	Fair value of the consideration paid	1050
2	Fair value of Non Controlling Interest (40% x 1 million x Rs.1550)	620
3	Total	1670
4	Less Fair Value of Net Assets (1280-100)	1180
5	Goodwill	490

When goodwill is measured taking non-Controlling interest at fair value, it is often termed as full goodwill.

Case II When non controlling interest is measured at proportionate share of net assets

No	Calculation of Goodwill	Rs.
1	Fair value of the consideration paid	1050
2	Fair value of Non Controlling Interest (40% x Rs.1180)	472
3	Total	1522
4	Less Fair Value of Net Assets (1280-100)	1180
5	Goodwill	342

When non controlling interest is measured at proportionate share of net assets , the goodwill is popularly termed as partial goodwill.

QUESTION 39 :

No	Particulars	Debit	Credit
1)	Assets A/c Dr.	240	
	To Liabilities A/c		40
	To Deferred tax Liability A/c		3
	To Cash/Bank A/c		150
	To Non Controlling Interest A/c (Equity)		45
	To Capital Reserve A/c (Bal Figure)		2

QUESTION 40 :

No	Particulars	Rs.
A	Purchase Consideration	
1)	Fair Value of assets and liabilities transferred	360
2)	Fair Value of Equity Shares issued (1 x 350)	350
3)	Total	710
4)	Fair Value of Assets acquired net of fair value of liabilities assumed	700
B)	Goodwill	10

Journal Entry in the books of Acquirer

No	Particulars	Debit	Credit
1)	Land & Building A/c Dr.	50	
	Plant & Machinery A/c Dr.	600	
	Equipment A/c Dr.	10	
	Inventories A/c Dr.	80	
	Receivables A/c Dr.	80	
	Cash & Cash Equivalents A/c Dr.	10	

	Goodwill A/c Dr.	10	
	To Loan A/c		100
	To Trade Payable A/c		30
	To Liquidator of Y Ltd.		710
	(Being assets and liabilities of Y Ltd acquired on business combination)		
2)	Trade Payables A/c Dr.	30	
	Liquidator of Y Ltd. A/c Dr.	360	
	To Equipment A/c		120
	To Inventories A/c		120
	To Receivables A/c		110
	To Profit & Loss A/c (Balancing Figure)		40
	(Being transfer of assets and liabilities of retail division to Liquidator of Y Ltd.)		
			.
3)	Liquidator of Y Ltd. A/c Dr.	350	
	To Equity Share Capital		10
	To Share Premium A/c		340
	(Being discharge of liquidator by issue of shares)		

QUESTION : 41

No	Particulars	Rs in Million
1	Purchase consideration measured at fair value of equity shares of A Ltd. i.e 60 million @27.50 per share	1650.00
	Non Controlling Interest	
2	40% of Fair Value of net assets of A Ltd. (3,000 – 500) x 40%	1000.00
		2650.00
3	Less Fair value of net assets of A Ltd. (3,000 – 500)	2500.00
4	Goodwill	150.00

Assumption –

No	Particulars	Rs in Million
1	Purchase consideration (2 x 800)	1600.00
	Non Controlling Interest	

2	40% of Fair Value of net assets of A Ltd. (3,000 – 500) x 40%	1000.00
		2600.00
3	Less Fair value of net assets of A Ltd. (3,000 – 500)	2500.00
4	Goodwill	100.00

QUESTION : 42

Calculation of goodwill

No	Particulars	Rs in Million
A	Consideration Paid (100 / 2 Shares x Rs.5.40)	270.00
B	Less Fair Value of Identifiable net assets including brand (180+10)	(190)
C	Goodwill (A-B)	80

Notes – Intangible assets that satisfy the definition of assets will be regarded as identifiable when acquired as part of the acquisition of the business. This would apply to the brands which from the prospective of Kappa, have been acquired as part of the acquisitions of Lambda.

However the estimated value of future services of employees could not be regarded as an identifiable assets because enterprises do not normally have sufficient control over the potential benefits derived from those services – the employees can normally leave.

The goodwill is not amortised but reviewed annually for impairment. Thus at 30th September 2005, goodwill will be measured at its cost of Rs. 80 m less any impairment. It can never be revalued.

QUESTION : 43

No	Calculation of Goodwill	Rs.
1	Cash Consideration	59,00,000
2	Equity Shares issued	10,00,000
3	Contingent Consideration (at fair value)	3,00,000
4	Add Fair Value of Previously held interest	20,00,000
5	Add NCI	7,50,000
F	Less Fair Value of net Identifiable Assets	(60,00,000)
G	Goodwill	39,50,000

Note - The acquisition cost of Rs. 1,00,000 should be recognised in profit and loss A/c

QUESTION : 44

As a result of Entity A issuing 150 ordinary shares, Entity B's shareholders own 60% of the issued shares of the combined entity (i.e. 150 of the 250 total issued shares)
The remaining 40% of are owned by Entity A's shareholders. Thus it is a reverse acquisition in which Entity B identified as the accounting acquirer (while Entity A is the legal acquirer)

Implied Purchase Consideration

- If the business combination had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same.
- Entity B's shareholders would then own 60 of the 100 issued shares of Entity B - 60% of the combined entity.
- As a result, the fair value of the consideration effectively transferred by Entity B and group's interest in Entity A is 1,600 (40 shares with a fair value per share of 40)
- The fair value of the consideration effectively transferred should be based on the most reliable measure.
- In this example, the quoted market price of Entity A's shares provides a more reliable basis for measuring the consideration effectively transferred than the estimated fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares – 100 shares with a fair value per share of 16.

Calculation of Goodwill

		Rs.
Consideration effectively transferred		1600
Net Recognised value of Entity A's identifiable assets and liabilities		
Current Assets	500	
Non Current Assets	1500	
Current Liabilities	(300)	
Non Current Liabilities	(400)	(1300)
Goodwill		300

Note

The amount recognised as a issued equity interest in the CFS is determined by adding the issued equity of the legal subsidiary immediately before the business combination (600) and the fair value of the consideration effectively transferred. (1600)

However the equity structure appearing in the CFS (i.e. the number and type of equity interests issued) must reflect the equity structure of the legal parent, including the equity interest issued by the legal parent to effect the combination.

Consolidated Statement of Financial position at September 30, 2001

	Entity B Book Value	Entity A Fair Value	Consolidated
Current Assets	700	500	1200
Non Current Assets	3000	1500	4500
Goodwill		300	300
Total Assets	3700	2300	6000
Current Liabilities	600	300	900
Non Current Liabilities	1100	400	1500
Total Liabilities	1700	700	2400
Shareholders Equity			
Issued Equity 250 ordinary shares	600	1600	2200
Retained Earnings	1400		1400
Total Shareholder's Equity	2000	1600	3600
Total Liabilities & Shareholder's Equity	3700	2300	6000

QUESTION: 45

Scenario 1

The new information obtained by F subsequent to the acquisition relates to facts and circumstances that existed at the acquisition date.

Accordingly an adjustment (i.e. decrease) to in the provisional amount should be recognised for loan to B with a corresponding increase in goodwill.

Goodwilll A/c Dr.

To loan to Customer

Scenario 2

The fair value of the loan to B will be less than the amount recognised earlier at the acquisition date. The new information resulting in the change in the estimated fair value of the loan to B does not relate to facts and circumstances that existed at the acquisition date, but rather is due to new event i.e. the loss of a major customer subsequent to the acquisition date.

Therefore, based on the new information, F Should determine and recognise an allowance for loss on the loan in accordance with IND AS 109, Financial Instruments: Recognition and measurement, with a corresponding charge to Profit or loss.

Goodwill is not adjusted.

P&L A/c Dr.

To Allowance for Bad Debts

QUESTION: 46

1. In this case, Company A has the option to measure NCI as follows:
   Option 1: Measure NCI at fair value i.e., ` 15 crores as derived by the valuer;

   Option 2: Measure NCI as proportion of fair value of identifiable net assets i.e., ` 10 crores (100 crores x 10%)

QUESTION : 47

At the acquisition date A recognises the gain of ` 5,000 in OCI as the gain or loss is not allowed to be recycled to income statement as per the requirement of Ind AS 109. A's investment in B would be at fair value and therefore does not require remeasurement as a result of the business combination. The fair value of the 5 percent investment (1,05,000) plus the fair value of the consideration for the 95 percent newly acquired interest is included in the acquisition accounting

QUESTION : 48

The amount of B's identifiable net assets exceeds the fair value of the consideration transferred plus the fair value of the NCI in B, resulting in an initial indication of a gain on a bargain purchase. Accordingly, A reviews the procedures it used to identify and measure the identifiable net assets acquired, to measure the fair value of both the NCI and the consideration transferred, and to identify transactions that were not part of the business combination.

Following that review, A concludes that the procedures followed and the resulting measurements were appropriate

Identifiable net assets	1,00,00,000
Less: Consideration transferred	(50,00,000)
NCI (10 million x 30%)	(30,00,000)
Gain on bargain purchase	20,00,000

QUESTION : 49

Calculation of Goodwill

No	Particulars	Rs. In Million
A	Consideration paid (10 million shares x 100)	1000
B	Contingent Consideration Paid [(0.20 x 0 + 0.4 x 2 + 0.4 x 2.5) x 100]/1.11	162.16
C	Total	1162.16
D	Less Fair Value of Identifiable net assets (1000-200)	800
E	Goodwill	362.16

QUESTION 50 : (Business Combination in stages)

No	Calculation of Goodwill	Rs.in Million
A	Consideration Paid	350
B	Fair Value of Previously held equity interest	330
C	Add Non Controlling Interest (40% x (1200-200))	400
D	Less Fair Value of Identifiable net assets	(1,000)
E	Difference	80
F	Add Deferred Tax Liability	40
G	Goodwill	120

Journal Entry

No	Particulars	Debit	Credit
1)	Assets A/c Dr.	1200	
	Goodwill A/c Dr.	120	
	To Liabilities A/c		200
	To Deferred Tax Liability		40
	To Investment in associates		300
	To Fair Value Gain (330-300)		30
	To Bank		350
	To Non Controlling Interest		400

BUSINESS COMBINATION – EXTRA QUESTIONS

QUESTION : 51

No. In this case all the market based measure of the replacement awards shall be recognised as remuneration cost in the post combination financial statement.

QUESTION : 52

Cancelled

QUESTION : 53

Fair value of consideration given

	$000	Explanation
Immediate Cash Payment	9600	Actual Amount Paid
Deferred Cash Payment	5926	Present value of actual amount payable (8M x $0.80/1.08)
Share Exchange	16,000	4 M shares issued at market value of $4each. Include at fair value on acquisition date.
Contingent Consideration	4,000	Any change in the fair value does not affect the original cost of Investment
Acquisition Cost	Nil	IND AS 103 requires any transaction cost related to the acquisition to be expensed immediately.
	35526	

Fair value of net assets acquired

	$000	Explanation
As per financial statements of Texas	30,000	
Adjustment for property	7,000	Market Value exceeds carrying amount by 7,000
Adjustment for customer relationship	7,500	An identifiable intangible assets with a measurable fair value
Adjustment for workforce	-	Intangible assets Assembled workforce fails the "control test"
Adjustment for reorganisation	Nil	Must treat as post acquisition items
Adjustment for contingency	Nil	IND AS 103 requires contingent liabilities that are present obligation to be recognised.
	44500	

Calculation of Goodwill

	$000
Fair value of consideration given	35,526
Add Non Controlling Interest	17,500

Less Fair Value of Net Identifiable Assets	44,500
Goodwill	8526

QUESTION : 54

Calculation of Goodwill

No		Rs in million
A	Investments held before acquiring control at Fair value (46 million shares @ Rs.160 Share)	7360
B	Add Non Controlling Interest (44/90) x Assets Rs.14,000 million + Cash & Cash Equivalents Rs.200 million – Liabilities Rs. 2000 million]	5964.44
C	Total	13,324.44
D	Less Net Assets Assets Rs.14,000 million + Cash & Cash Equivalents Rs.200 million – Liabilities Rs. 2000 million	12,200
E	Goodwill	1,124.44

QUESTION : 55

ABC recognises this amount as a gain in the consolidated profit or loss. The net identifiable assets and liabilities of DEF exclude the loan due from DEF.

ABC accounts for the acquisition of DEF and settlement of the financial liability as below

No	Particulars		Dr	Cr
1	Net Identifiable assets and liabilities acquired (920-90)	Dr.	830	
	Goodwill A/c (910-830)	Dr.	80	
	To cash consideration for business combination			910
2	Loss due to DEF A/c	Dr.	100	
	To Gain on derecognition of loan due to DEF			10
	To Cash			90
	(Being effective settlement of loan due to entity DEF)			

QUESTION : 56

If the acquirer obtains new information during the measurement period about the acquisition date fair value of that liability, the change to the provisional amount recognised for the liability would be offset by a corresponding adjustment to goodwill and a change to the provisional amount recognised for the claim receivable from the insurer.

No	Particulars		Dr	Cr

1	Insurance Claim Receivables A/c	Dr.	1,00,000	
	Goodwill A/c	Dr.	3,00,000	
	To claims payable			4,00,000
2	Claims payable A/c	Dr	24,00,000	
	To bank A/c			24,00,000
3	Bank A/c	Dr.	11,00,000	
	To Insurance Claim Receivables A/c			11,00,000

QUESTION : 57

No	Particulars		Dr	Cr
1	Claims Liability A/c	Dr.	5,00,000	
	To Insurance Claim Receivables A/c			1,00,000
	To Goodwill A/c			2,00,000
	To Capital Reserve A/c			2,00,000
2	Claims Liability A/c	Dr	15,00,000	
	To bank A/c			15,00,000
3	Bank A/c	Dr.	9,00,000	
	To Insurance Claim Receivables A/c			9,00,000

QUESTION : 58

In the given scenario, this demerger will meet the definition of common control transaction.

Accordingly, the transfer of assets and liabilities will be derecognised and recognised as per book value.

In the books of Z Ltd. (Journal Entries) Demerged Company

No	Particulars		Dr.	Cr.
1	Bank A/c	Dr.	102	
	To Investment A/c			97
	To P & L A/c			5
	(Being investments sold at a profit of Rs.5 Crores)			
2	Loan Funds (Debentures) A/c	Dr.	125	
	To Bank A/c			125

3	Provision for Depreciation A/c	Dr.	81	
	Current Liabilities A/c	Dr.	93	
	Loan Funds A/c	Dr.	15	
	Loss on Demerger A/c	Dr.	645	
	To Fixed Assets			248
	To Current Assets			585

In the books of Y Ltd. (Journal Entries)

No	Particulars		Dr.	Cr.
1	Fixed Assets A/c (Book Value)	Dr.	168	
	Current Assets A/c	Dr.	585	
	Other Equity A/c (Bal Fig)	Dr.	45	
	To Loan Funds A/c			15
	To Current Liabilities A/c			93
	To Share Capital (69 Crore Shares x 10)			690
	(Being assets and liabilities of W Division of Z Ltd taken Over and PC satisfied by issue of 69 crore equity shares of 10 each to members of Z Ltd.)			

Balance Sheet as on 01.04.2015

A	Assets		Z Ltd.	Y Ltd.
1	Non Current Assest			
a)	Fixed Assets			
	a) Tangible	1	515	168
	Current Assets			
	*(445 + 102 – 125)		422	585
			937	753
B	Equity & Liabilities			
1	Equity			
a)	Share Capital	2	345	690
b)	Reserves and Surplus	3	45	(45)
			390	645
2	Non Current Liabilities			
	Financial Liabilities			

	Long Term Borrowing			
	Secured Loan (417-125-15)		277	15
3	Current Liabilities		270	93
			937	753

Note No 1 PPE

Particulars	Z Ltd.	Y Ltd.
Gross Block	875	168
Less Accumulated Depreciation	360	-
Net Block	515	168

Note No 2 Share Capital

Particulars	Z Ltd.	Y Ltd.
Authorised	-	900
Issued and Paid Up	-	
34.5 Crore Equity Shares of 10 each	345	
69 Crore shares of 10 each		690
(Without consideration being received in cash)		
	345	690

Note No 3 Reserve & Surplus

Particulars	Z Ltd.	Y Ltd.
Opening Balance	685	-
Add Profit on sale of Investment	5	
Loss on Demerger	(645)	
Other Equity		(45)
	45	45

Calculation of Intrinsic Value of Shares

	Z Ltd.		Y Ltd.
	Pre Demerger	Post Demerger	Post Demerger
Sahreholders Funds	345+685+(5) = 1035	390	645
No of Shares in Crores	34.5	34.5	69
Intrinsic Value of Shares	Rs.30	Rs.11.30	Rs. 9.35

Calculation of gain to shareholders

No	Particulars	Rs.	Rs.
A	Value of one share of Z Ltd before Demerger		30
B	Value of Shares after Demerger		
	Z Ltd. – 1 Share x 11.30	11.30	
	Y Ltd. – 2 Shares x 9.35	18.70	30
C	Gain/Loss		Nil

Note – Demerger has no immediate impact on wealth of shareholders. However, in future wealth of shareholders may rise as two companies will focus on their core business.

Intrinsic Value has been calculated on the basis of book values.

QUESTION : 60

Case 1 - entities under combination are within common control (Group 1) before and after the combination.

Similarly, in case 2, entities under combination are within common control (group 2) before and after the combination.

The acquirer applies pooling of interest method to account for these business combinations.

In case 1, the acquirer P Ltd. records investments in S2 Ltd. as follows for CFS:

Journal Entry of P Ltd. (Acquirer) Pooling of Interest Method Rs. In Crores

No	Particulars		Debit	Credit
1	Assets A/c	Dr.	180	
	General Reserve A/c or Capital Reserve	Dr.	16	
	To Liabilities A/c			40
	To Non Controlling Interest A/c			56
	To Bank A/c			100

In case 2, S Ltd. would account for the pooling of interest in S21 Ltd. in the same manner.