Edition
3rd

e-Book

Combined and Consolidated Financial Statements under Ind AS

STANDARDS COVERED

27	**Separate Financial Statements**
28	**Investments in Associates and Joint Ventures**
103	**Business Combinations**
110	**Consolidated Financial Statements**
111	**Joint Arrangements**
112	**Disclosure of Interests in Other Entities**

Newly added: Amendment to the Definition of a Business

Combined and Consolidated Financial Statements

Covering 6 Standards:

- **Ind AS 27** *Separate Financial Statements*
- **Ind AS 28** *Investments in Associates and Joint Ventures*
- **Ind AS 103** *Business Combinations*
- **Ind AS 110** *Consolidated Financial Statements*
- **Ind AS 111** *Joint Arrangements*
- **Ind AS 112** *Disclosure of Interests in Other Entities*

Preview

This is a preview of the e-book and does not contain the full e-book

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CHAPTER 1

Ind AS 27: Separate Financial Statements

OBJECTIVE **1.1**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

SCOPE **1.2**

This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by law, to present separate financial statements.

This standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Ind ASs.

Separate Financial Statements

Separate financial statements are those presented by a parent (ie, an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with Ind AS 109.

Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method.

The financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements.

An entity that is exempt from consolidation or from applying the equity method may present separate financial statements as its only financial statements.

An investment entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with Ind AS 110 presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements 1.3

Separate financial statements shall be prepared in accordance with all applicable Ind ASs, except when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either –

- at cost
- in accordance with Ind AS 109.

The entity shall apply the same accounting for each category of investments, investments accounted for at cost or using the equity method shall be accounted for in accordance with Ind AS 105 when they are classified as held for sale or for distribution (or included in a disposal group that is classified as held for sale or for distribution). The measurement of investments accounted for in accordance with Ind AS 109 is not changed in such circumstances.

If an entity elects to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with Ind AS 109, it shall also account for those investments in the same way in its separate financial statements.

If a parent is required to measure its investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.

When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows –

(a) when an entity ceases to be an investment entity, the entity either:
   (i) account for an investment in a subsidiary at cost. The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date; or
   (ii) continue to account for an investment in a subsidiary in accordance with Ind AS 109

(b) When an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

Dividends from a subsidiary, a joint venture or an associate are recognised in the separate financial statements of an entity when –

- The entity’s right to receive payment of the dividend is established.
- It is probable that the economic benefit associated with the dividend will flow to the entity, and
- The amount of the dividend can be measured reliably.

WORKED EXAMPLE 1

The following information is given:

Balance Sheet of XYZ Ltd as at 31 March 20x3

	(CU)
ASSETS	
Non-current assets	
Property, plant and equipment	4,250
Intangible assets	120
Financial assets –	
Investment in equity instruments	220
Deferred tax assets	72
Current assets	
Inventories	632
Financial assets –	
Trade receivables	225
Cash and cash equivalents	966
Other current assets	515
Total assets	**7,000**
EQUITY AND LIABILITIES	
EQUITY	
Equity share capital	4,000
Retained earnings	675
Other equity	60
LIABILITIES	
Non-current liabilities	
Financial liabilities –	
Borrowings	1,000
Deferred tax liabilities	56
Current liabilities	
Financial liabilities –	
Borrowings	500
Trade payables	127
Provisions	60
Current tax liability	522
Total equity and liabilities	**7,000**

Trial Balance as at 31 March 20x4		(CU)
	Debit	**Credit**
Capital account		
Share capital		4,200
Retained earnings		675
Other equity		60
Current liabilities		
Accumulated depreciation and impairment		750
Accumulated amortisation		60
Trade payables		271
Short - term borrowings		363
Provisions		130
Non - current liabilities		
10% Bonds		1,500
Deferred tax liability		56
Current assets		
Inventories	632	
Trade receivables	196	
Other current assets	1,088	
Cash and cash equivalents	2,793	
Non - current assets		
Property, plant and equipment	4,360	
Intangible assets	120	
Investment in equity instruments	100	
Deferred tax assets	72	
Income		
Sales		5,800
Dividend received		100
Expenses		
Purchases	2,473	
Depreciation and impairment expense	750	
Amortisation of intangible assets	60	
Administrative expenses	422	
Issue of bonus shares	200	
Interest on 10% bonds	125	
Interest on short-term borrowings	45	
Distribution expenses	379	
Provisions –		
Onerous contract	40	
Product warranty	30	
Dividend paid	80	
	13,965	**13,965**

Statement of Changes in Equity for the year ended 31 March 20x4

(CU)

	Equity Share Capital	Retained earnings	Revaluation Surplus			Fair Value Gain	Other components of equity
			Building	Motor vehicles	Intangible assets	Investment in equity instruments	
1 April 20x3	4,000	675	-	36	12	12	**60**
Bonus shares *	200	(200)	-	-	-	-	
Recognised through -							
Profit or loss		1,065	-	-	-	-	
Other comprehensive income		-	120	24	-	12	**156**
Reversed through -							
Other comprehensive income		-	-	-	(12)	-	**(12)**
Dividends		(80)	-	-	-	-	
Transfer to retained earnings		24	-	(12)	-	(12)	**(24)**
31 March 20x4	**4,200**	**1,484**	**120**	**48**	**-**	**12**	**180**

* Issued on 1 December 20x3

Statement of Cash Flows for the year ended 31 March 20x4

	Notes	(CU)
Cash flows from operating activities		
Accounting profit		1,709
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation and impairment of property, plant and equipment	5	750
Amortisation of intangible asset	10	60
Finance costs (Interest paid)	3	170
Provision for –	7	
Onerous contract		40
Product warranty		30
Dividend received		(100)
Working capital adjustments:		
Decrease in trade receivables		29
Increase in inventories		(133)
Increase in other current assets		(573)
Increase in trade payables		144
		2,126
Income tax paid		(522)
Net cash flows from operating activities		**1,604**
Cash flows from investing activities		

3. Finance Cost

	(CU)
Interest on 10% bonds	125
Interest on short-term borrowings	45
Total	**170**

4. Other expenses

	(CU)
Administrative expenses	422
Distribution expenses	379
Provision for –	
Onerous contract	40
Product warranty	30
Total	**871**

5. Property, plant and equipment (CU)

	Land	Building	Plant and Machinery	Motor vehicle	Furniture and fixtures	Total
Cost or valuation						
1 April 20x3	2,000	1,000	750	300	200	4,250
Additions	-	100	-	10	-	110
Disposals	-	-	-	-	-	-
Revaluation *	-	200	-	40	-	240
31 March 20x4	**2,000**	**1,300**	**750**	**350**	**200**	**4,600**
Depreciation						
1 April 20x3	-	-	-	-	-	-
Depreciation charge for the year	-	200	200	100	100	600
Impairment	-	-	150	-	-	150
31 March 20x4	**-**	**200**	**350**	**100**	**100**	**750**
Net book value at 31 March 20x4	**2,000**	**1,100**	**400**	**250**	**100**	**3,850**

* Revaluation is inclusive of deferred tax liability

11 a. Deferred tax expense and deferred tax liability (CU)

	Building		Motor vehicles		Furniture and fixtures	Intangible asset	Investment in equity instruments	Total		Deferred tax expense	Deferred tax liability	Total
	PL [1]	OCI [2]	PL [1]	OCI [2]	PL [1]	OCI [2]	OCI [2]	PL [1]	OCI [2]			
1 April 20x3	-	-	16	24	-	8	8	16	40			56
Recognised	20	80	-	16	40	-	8	60	104	60		164
Reclassified	-	-	-	-	-	-	(8)	-	(8)			(8)
Derecognised	-	-	-	-	-	(8)	-	-	(8)		(8)	(8)
31 March 20x4	**20**	**80**	**16**	**40**	**40**	**-**	**8**	**76**	**128**	**60**	**(8)**	**204**

[1] Profit or loss [2] Other comprehensive income

11 b. Deferred tax income and deferred tax asset (CU)

	Plant and Machinery	Intangible asset	Furniture	Provision		Deferred tax income	Deferred tax asset	Total
				Onerous contract	Product warranty			
1 April 20x3	20	8	20	-	24			72
Recognised	60	8	-	16	12	96		96
Reversed	-	-	(20)	-	-		(20)	(20)
31 March 20x4	**80**	**16**	**-**	**16**	**36**	**96**	**(20)**	**148**

11 c. Deferred Tax (CU)

Date	Heads of account	Dr	Cr	Balance
20x4				
Mar 31	Deferred tax expense	60		60
	Deferred tax income		96	(36)
	Deferred tax liability		8	(44)
	Deferred tax asset	20		(24)

6. Investment in Equity Instruments **(CU)**

Date	Heads of Account	Carrying Amount			Tax Base		
		Dr	Cr	Balance	Increase	Decrease	Balance
20x3							
Apr 1				220			220
20x4							
Mar 31	Fair value gain	12		232			
	Deferred tax liability	8		240			
	Cash		140	100		120	100

The gain on sale of investment in equity instrument is CU 20 ie CU (120 - 100), which is taxable. In effect, the corresponding deferred tax liability is reclassified from other comprehensive income to profit or loss. The net gain after tax CU 12 ie CU (20 - 8) is transferred to retained earnings.

Journal

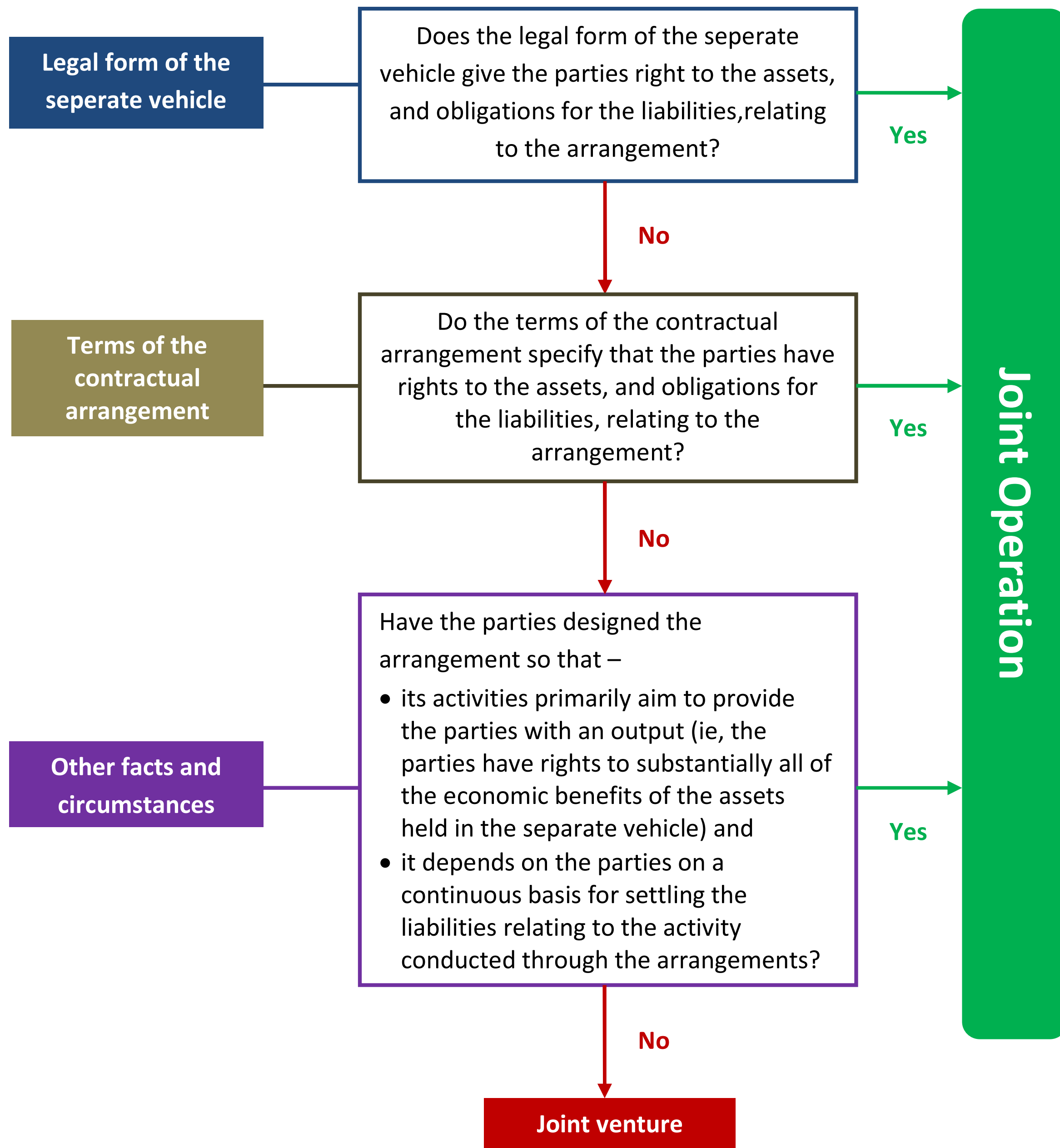
		Dr	Cr
(1)	Investment in equity instruments	CU 20	
	Fair value gain		CU 12
	Deferred tax liability		CU 8
(2)	Cash	CU 140	
	Investment in equity instruments		CU 140
(3)	Deferred tax liability	CU 8	
	Tax expense		CU 8
(4)	Fair value gain	CU 12	
	Retained earnings		CU 12

7. Provisions **(CU)**

Date	Heads of Account	Carrying Amount			Tax Base		
		Dr	Cr	Balance	Increase	Decrease	Balance
20x3							
Apr 1				60			-
20x4							
Mar 31	Other expenses -						
	Onerous contract		40	100	-		-
	Product warranty		30	130	-		-

The opening provision (CU 60) is for product warranty, for which a deferred tax asset of CU (60 x 40%) = CU 24 is created. During the period, provisions are created for - (i) onerous contract CU 40 and (ii) product warranty CU 30. Therefore, respective deferred tax assets are recognised which are :

i. Onerous contract CU 16 (40 x 40%)
ii. Product warranty CU 12 (30 x 40%)


Legal form of the seperate vehicle
Does the legal form of the seperate vehicle give the parties right to the assets, and obligations for the liabilities,relating to the arrangement?
Yes
No
Terms of the contractual arrangement
Do the terms of the contractual arrangement specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement?
Yes
No
Other facts and circumstances
Have the parties designed the arrangement so that –
• its activities primarily aim to provide the parties with an output (ie, the parties have rights to substantially all of the economic benefits of the assets held in the separate vehicle) and
• it depends on the parties on a continuous basis for settling the liabilities relating to the activity conducted through the arrangements?
Yes
No
Joint venture
Joint Operation

Loss allowance (LT Loan) CU 20

Profit or loss CU20

Decrease in the loss allowance (CU 90 – CU 70)

O shares CU 200

Profit or loss CU 200

To recognise the investor's share of the associate's profit (CU 500 × 40%)

At the end of Year 7, the carrying amount of O Shares is CU 280, P Shares is CU 110 and the LT Loan (net of loss allowance) is CU 90.

Years 1–7

When recognising interest revenue on the LT Loan in each year, the investor does not take account of any adjustments to the carrying amount of the LT Loan that arose from applying Ind AS 28). Accordingly, the investor recognises the following in each year:

Cash CU 5

Profit or loss CU 5

To recognise interest revenue on LT Loan based on the effective interest rate of 5%

Summary of amounts recognised in profit or loss

This table summarises the amounts recognised in the investor's profit or loss.

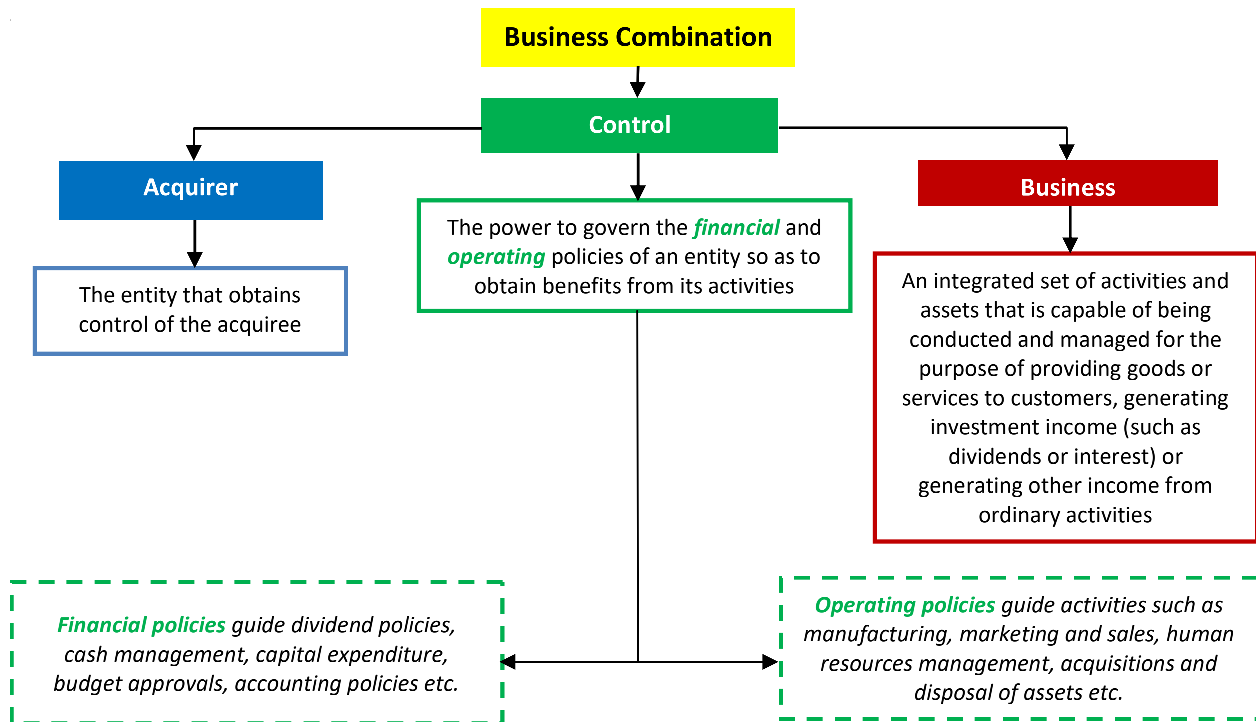
Items recognised	Impairment (losses), including reversals, applying Ind AS 109	Gains (losses) of P shares applying Ind AS 109	Share of profit (loss) of the associate recognised applying the equity method	Interest revenue applying Ind AS 109
During				
Year 1	CU (10)	CU 10	CU 20	CU 5
Year 2	CU (20)	CU (20)	CU (80)	CU 5
Year 3	CU (20)	CU (40)	CU (200)	CU 5
Year 4	–	CU (10)	CU (30)	CU 5
Year 5	CU (10)	CU 20	CU (30)	CU 5
Year 6	CU (10)	CU 20	CU 200	CU 5
Year 7	CU (20)	CU 30	CU 200	CU 5

Chapter 5

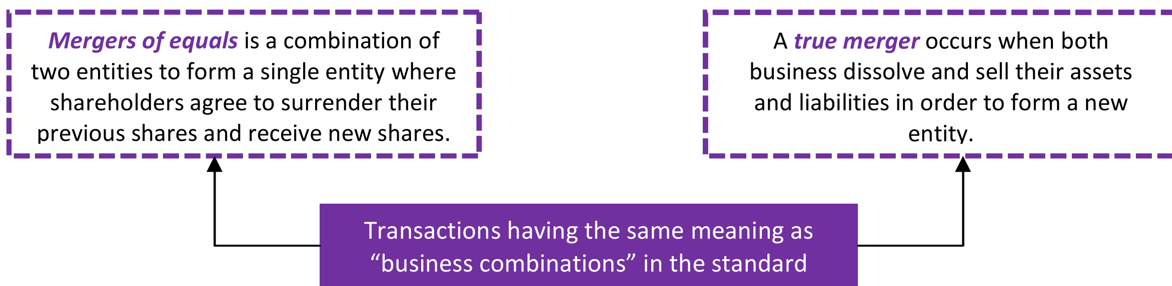
Ind AS 103: BUSINESS COMBINATIONS

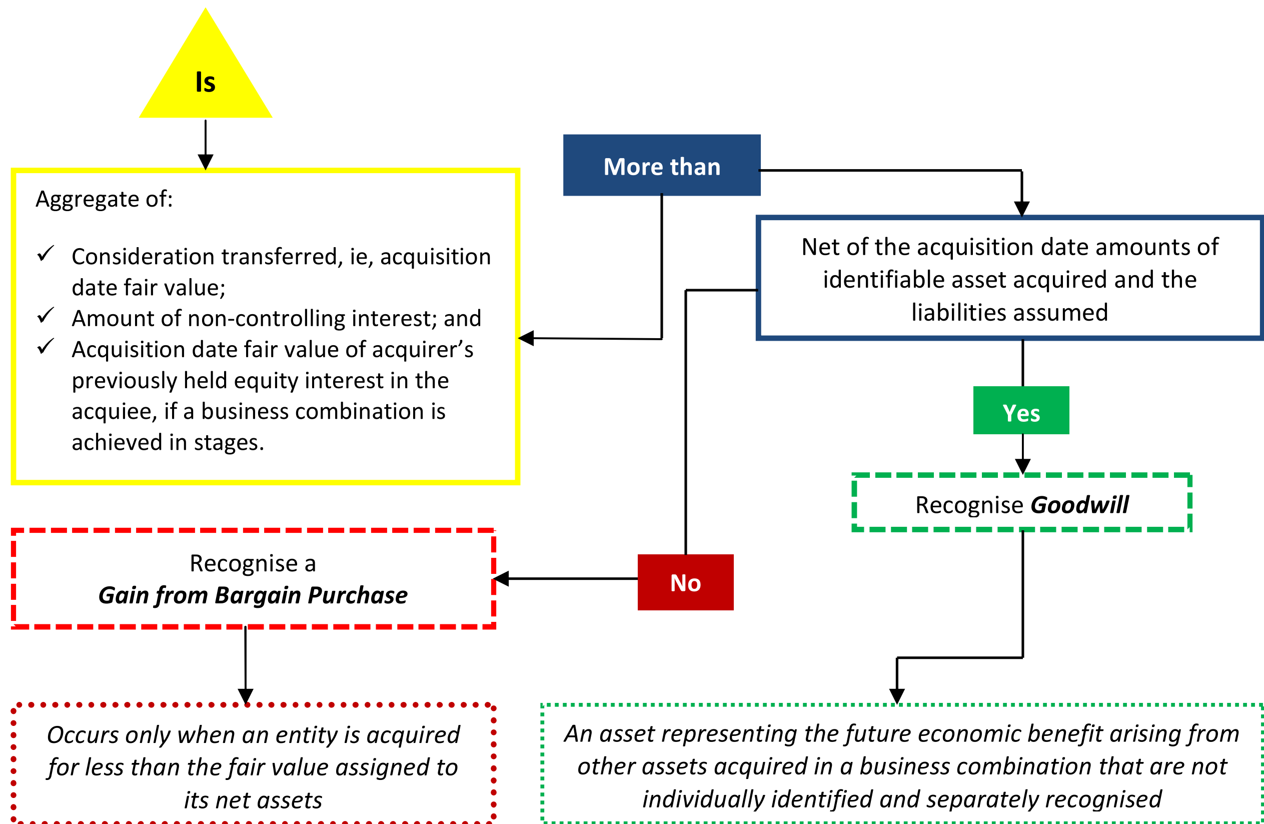
INTRODUCTION 5.1

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.



Transactions sometimes referred to as *true mergers* or *mergers of equals* are also business combinations as that term is used in this Standard.





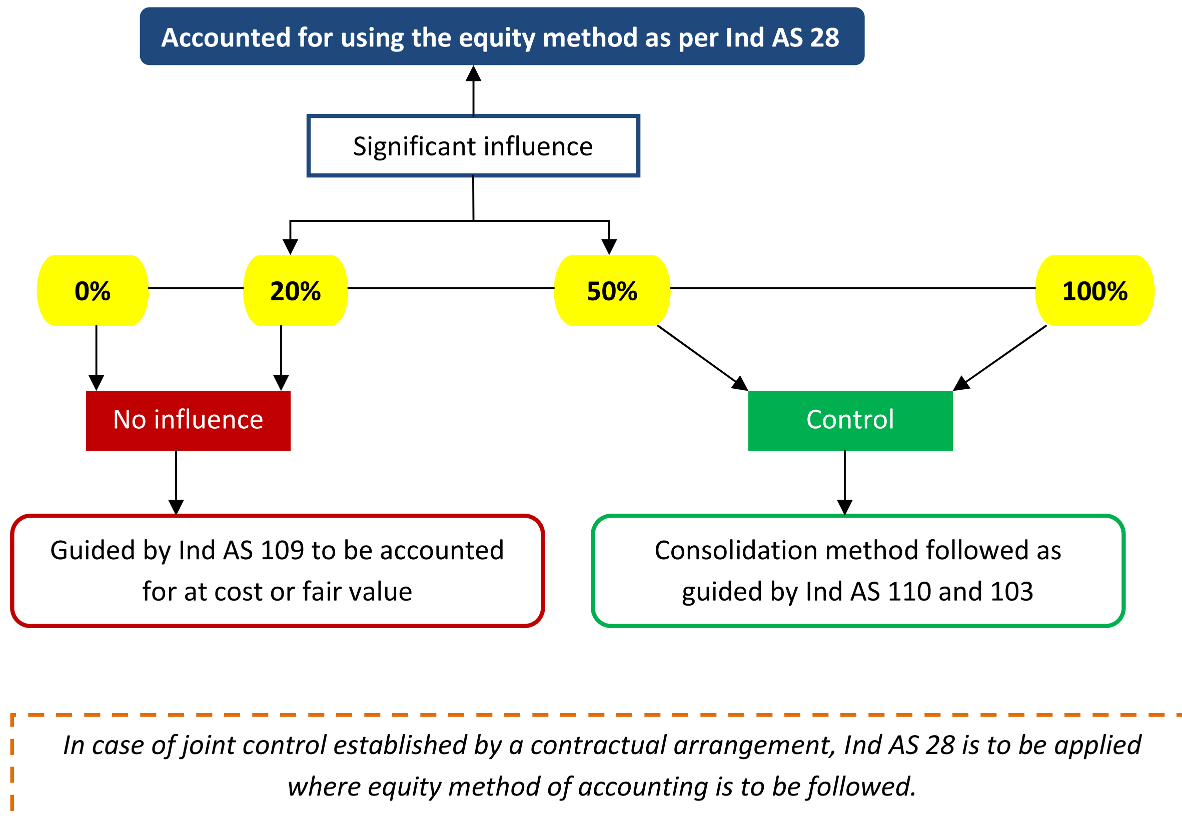
- determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

SCOPE 5.3

This Standard applies to all transactions or other events that meet the definition of a business combination. However, this standard does not apply to:

(a) the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

(b) the acquisition of an asset or a group of assets *that does not constitute a business*.
In such cases, the acquirer shall identify and recognise the individual identifiable assets acquired [including those assets that meet the definition of, and recognition criteria for, *intangible assets* (an identifiable non-monetary asset without physical substance) in Ind AS 38 *Intangible Assets*] and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative *fair value* (it is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market



An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, eg, they cannot be exercised or converted until a certain date or until the occurrence of a future event.

In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual agreements whether considered individually or in combination) that affect potential voting rights, except the *intention* of management and the *financial ability* to exercise or convert such rights.

EXAMPLE 27

On 1 January 20x4, P (year-end 31 March) acquired 75% of the equity interests of S and gained control. The purchase consideration was CU 120 paid in cash. At the acquisition date, the fair value of non-controlling interest was calculated at CU 35. The fair value of the identifiable net assets of S (carrying amount CU 120) at the acquisition date could not be finalised. The fair value of the identifiable net assets of S was finalised at 30 September 20x4 at CU 136, which includes a contingent liability - the fair value of which is estimated to be CU 10. The difference in fair value of the identifiable net assets at the acquisition is due to an item of property, plant and equipment which had remaining useful life of 5 years at the acquisition date. The rate of income tax is 25%. Pass journal entries.

Ind AS allows the acquirer to measure non-controlling interest in the acquiree at its fair value at the acquisition date. The FV of the acquirer's interest in the acquiree and the non-controlling interest on a per-share basis might differ.

At the acquisition date

	Proportionate Basis	Fair Value
Consideration transferred	120	120
Non-controlling interest at:		
% of net assets (120 × 25%)	30	–
Fair value	–	35
	150	155
Net identifiable assets at the acquisition date	(120)	(120)
Goodwill	**30**	**35**

Journal *(proportionate basis)*

	Dr	Cr
Goodwill	CU 30	
Net Identifiable Assets	CU 120	
Cash		CU 120
Non-Controlling Interest		CU 30

At the measurement date

	Proportionate Basis	Fair Value
Consideration transferred	120	120
Non-controlling interest at:		
% of net identifiable assets [{120 + (136 - 120) × 75%} × 25%]	33	–
Fair value	–	35
	153	155
Net identifiable assets at the measurement date	(132)	(132)
Goodwill	**21**	**23**

Bargain Purchase 5.20

In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination. A bargain purchase is a business combination in which the fair value of the identified assets acquired and liabilities assumed exceeds the aggregate of the fair value of the consideration transferred, the recognised amount of any non-controlling interest in the acquiree, and the fair value of any previously held equity interest in the acquiree. A bargain purchase might happen, eg, in a business combination that is a forced sale in which the seller is acting under compulsion. The acquirer shall recognise this resulting gain in other comprehensive income and accumulate the same in equity as capital reserve at the acquisition date. The gain shall be attributed to the acquirer.

Before recognising a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts this Ind AS requires to be recognised at the acquisition date, for all of the following:

- the identifiable assets acquired and liabilities assumed;
- the non-controlling interest in the acquiree, if any;
- for a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree; and
- the consideration transferred.

The objective of this review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

EXAMPLE 63

On 1 January 20x4 AC acquires 75% of the equity interests of TC, a private entity, in exchange for cash of CU 150. Since the former owners of TC needed to dispose of their investments in TC by a specified date, they did not have sufficient time to market to multiple potential buyers. The management of AC initially measures the separately recognisable identifiable assets acquired and the liabilities assumed as of the acquisition date as per this Standard. The identifiable assets are measured at CU 250 and the liabilities assumed are measured at CU 30. AC engages an independent consultant, who determines that the fair value of the 25% non-controlling interest in TC is CU 50.

The amount of TC's identifiable net assets CU 220, calculated as (CU 250 – CU 30) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TC. Therefore, AC reviews the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TC and the consideration transferred. After that review, AC decides that the procedures and resulting measures were appropriate.

AC measures the gain on its purchase of the 75% interest as follows:

Fair value		**(CU)**
Fair value of the identifiable net assets acquired		220
Less: Fair value of the consideration transferred for 75% interest	150	
Fair value of non-controlling interest (25%)	50	(200)
Gain on bargain purchase		**20**

Proportionate share		**(CU)**
Fair value of the identifiable net assets acquired		220
Less: Fair value of the consideration transferred (as above)	150	
Proportionate share of non-controlling interest (25% of CU 220)	55	(205)
Gain on bargain purchase		**15**

Consideration Transferred

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share based payments awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured according to Ind AS 102 *Share-based Payment*. Examples of potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.

The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (eg, non-monetary assets or a business of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognise the resulting gains or losses, if any, in profit or loss. However, sometimes the transferred assets or liabilities remain within the combined entity after the business combination (eg, because the asset or liabilities were transferred to the acquiree rather than to its former owners), and the acquirer, therefore, retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognise a gain or loss in profit or loss, on assets or liabilities it controls both before and after the business combination.

EXAMPLE 70

On 1 January 20x4, P acquired a 20% equity interest of S, a listed entity, (2,000 shares @ CU 1.10 each). In its Separate Financial Statements, P does not exercise significant influence and treated the investment as an investment in equity instruments and elected to measure it at cost. On 1 February 20x4, P increased the investment by acquiring another 25% equity interest of S (2,500 shares @ CU 1.15 each). On 1 March 20x4, P acquired further 30% equity interest (3,000 shares @ CU 1.20 each) to exercise control over S. Now, P decides to derecognise the investment in equity instruments and treat that as investment in subsidiary and measure it through FVOCI. On the same date (the acquisition date), the fair value of the identifiable assets of S are measured at CU 17,000 (carrying amount CU 12,000) and the fair value of the identifiable liabilities of S are measured at CU 8,000 (carrying amount CU 7,000). The fair value of the original investments of 45% (20% + 25%) holding and the fair value of non-controlling interest should be estimated using the market value of the shares at the date of acquisition. The income tax rate is 30%. Pass Journal entries.

ANSWER

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

At the acquisition date, goodwill is recognised and measured as the excess of (A) over (B) below:

(A) The aggregate of –

1. The consideration transferred measured in accordance with Ind AS 103, which generally requires acquisition date fair value.
2. The amount of any non-controlling interest in the acquiree measured at :
   (i) Fair value; or
   (ii) The present ownership instrument's proportionate share in the recognised amounts of the acquiree's identifiable net assets.
3. The acquisition date fair value of the acquirer's previously held equity interest in the acquiree, if a business combination is achieved in stages.

(B) The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with Ind AS 103.

Therefore, at the acquisition date, goodwill is measured as the excess of the sum of the fair value of the consideration transferred in exchange for control of the acquired business, *plus* the initial carrying value of any non-controlling interest in the acquired business *less* the fair value of the identifiable net assets of the acquired business.

In a business combination, temporary differences arise and an entity recognises any resulting deferred tax assets or deferred tax liabilities as identifiable assets and liabilities at the acquisition date. Those deferred tax assets and deferred tax liabilities affect the amount of goodwill or the bargain purchase gain the entity recognises. Therefore, an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill because goodwill

is measured as a residual (since direct measurement of goodwill is not possible) and the recognition of the deferred tax liability would increase the carrying amount of goodwill.

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 and recognise the resulting gain or loss in profit or loss or OCI, as appropriate. In prior reporting periods, the acquired has recognised changes in the value of the equity interest in the acquiree in OCI. The amount that was recognised in OCI shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest ie the balance of the fair value gain to be transferred directly to the retained earnings (not a reclassification adjustment).

Journal

	Debit	Credit
1) Investment in Equity Instruments	CU 2,200	
Cash		CU 2,200
2) Investment in Equity Instruments	CU 2,875	
Cash		CU 2,875
3) Investment in Equity Instruments	CU 3,600	
Cash		CU 3,600
4) Investment in Subsidiary (FV at the acquisition date)	CU 9,000 (CU 7,500 × 1.20)	
Investment in Equity Instruments		CU 8,675 (2,200 + 2,875 +3,600)
Fair Value Gain (on step acquisition)		CU 325
5) Fair Value Gain	CU 325	
Retained Earnings		CU 325

	Proportionate Share [5]	Fair Value [6]
Goodwill	3,150 [1]	4,200
Assets	17,000	17,000
Deferred Tax Asset	300 [3]	300
Investment in Subsidiary	9,000	9,000
Liabilities	8,000	8,000
Deferred Tax Liability	1,500 [4]	1,500
Non-Controlling Interest	1,950 [1]	3,000 [2]

[1] Carrying amount of net identifiable assets = CU 5,000 (CU 12,000 – CU 7,000)

Fair value of net identifiable assets = CU 9,000 (CU 17,000 – CU 8,000)

Fair value of net identifiable assets (net of deferred taxes) = CU 7,800 [CU 5,000 + (CU 9,000 – CU 5,000) × 70%]

P's Share = CU 5,850 (CU 7,800 × 75%) ; S's Share = CU 1,950 (CU 7,800 × 25%)

Goodwill = CU 3,150 (CU 9,000 – CU 5,850).

[2] 2,500 shares × 1.20 = 3,000; [3] [(CU 8,000 – CU 7,000) × 30%]; [4] [(CU 17,000 – CU 12,000) × 30%]

A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes on the basis of the guidance as per this standard. The entity whose equity interests are acquired (the legal acquiree) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition. For example, reverse acquisitions sometimes occur when a private operating entity wants to become a public entity but does not want to register its equity shares. To accomplish that, the private entity will arrange for a public entity to acquire its equity interests in exchange for the equity interests of the public entity. In this example, the public entity is the **legal acquirer** because it issued its equity interests, and the private entity is the **legal acquiree** because its equity interests were acquired. However, application of the guidance in this standard results in identifying:

- the public entity as the **acquiree** for accounting purposes (the accounting acquiree); and
- the private entity as the **acquirer** for accounting purposes (the accounting acquirer).

The accounting acquiree must meet the definition of a business for the transaction to be accounted for as a reverse acquisition, and all of the recognition and measurement principles in this Standard, including the requirement to recognise goodwill, apply.

EXAMPLE 88

This example illustrates the accounting for a reverse acquisition in which Entity B, the legal subsidiary, acquires Entity A, the entity issuing equity instruments and therefore the legal parent, in a reverse acquisition on 30 September 20x3. This example ignores the accounting for any income tax effects. The Balance Sheet of Entity A and Entity B immediately before the business combination are:

		(CU)
	Entity A*	**Entity B****
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholder's equity:		
Retained earnings	800	1400
Issued equity		
100 ordinary shares	300	-
60 ordinary shares	-	600
Total shareholder's equity	1,100	2,000
Total liabilities and shareholder's equity	1,800	3,700

[1] **Fair value of net assets acquired**

Assets	**(CU)**
Property, plant and equipment	3,700 (3,400 + 300)
Intangible assets	750 (900 – 150)
Investment in equity instruments	120
Indemnification asset	100
Inventories	552 (652 – 100)
Trade receivables	315
Other current assets	117
Cash and cash equivalents	176
Deferred tax assets	420 [320 + (150 + 100) x 40%]
Total assets (A)	**6,250**

Liabilities	**(CU)**
8% bonds	1,500
Indemnification liability	120
Trade and other payables	583
Short-term borrowings	800
Current tax liabilities	632
Deferred tax liabilities	328 (208 + 120)
Total liabilities (B)	**3,963**

- Fair value of net assets (A – B) — 2,287
- Non-controlling interest (2,287 x 25%) — 572
- Calculation of goodwill:

Fair value of the investment (2,500 + 500 + 1,000)	4,000
Less: Proportionate fair value of net assets (2,287 x 75%)	(1,715)
Goodwill	**2,285**

Reconciliation

Assets side	CU	*Equity and liabilities side*	CU
Total: Parent (P)	10,500	Total: Parent (P)	10,500
Subsidiary (S)	6,000	Subsidiary (S)	6,000
Investment of P in S	(4,000)	S: Share capital	(1,000)
Goodwill	2,285	Retained earnings	(1,025)
Indemnification asset	100	Other equity	(252)
Increase in FV of PPE	300	Indemnification liability	120
Decrease in FV of IA	(150)	Non-controlling interest	572
Decrease in FV of Inventories	(100)	DTL [(CU 300 x 40%)	120
DTA (CU 150 x 40%) + (CU 100 x 40%)	100		
	15,035		**15,035**

Statement of Profit and Loss for the period ended 31 March 20x4

	P	S	Consolidated
Revenue	5,800	7,120	9,920
Cost of sales	(2,340)	(2,560)	**(1,920)**
Gross profit	3,460	4,560	8,000
Other income (Dividends)	100	150	**160**
Administrative expenses	(422)	(536)	(958)
Distribution expenses	(379)	(422)	(801)
Other expenses:			
Depreciation of PPE	(600)	(900)	**(1,640)**
Amortisation of intangible assets	(60)	(300)	**(310)**
Impairment of PPE	(150)	–	(150)
Impairment reversal of PPE	–	100	100
Short-term provisions	(70)	–	(70)
Research costs	–	(400)	(400)
Interest – 10% Bonds	(125)	–	(125)
8% Bonds	–	(120)	(120)
Short-term borrowings	(45)	(50)	(95)
Deferred consideration	(50)	-	(50)
Contingent consideration	(100)	-	(100)
Accounting profit	**1,559**	**2,082**	**3,441**
Tax expense – Current tax expense	(668)	(545)	**(1,213)**
Deferred tax expense	(60)	(60)	**(120)**
Deferred tax income	96	40	**184**
Deferred tax liability	8	52	**116**
Deferred tax asset	(20)	(260)	**(340)**
Profit for the period	**915**	**1,309**	**2,068**
Other Comprehensive Income (net of tax)			
Items that will not be reclassified subsequently to Profit or Loss			
Revaluation increase of PPE	144	150	294
Revaluation decrease of –			
Intangible assets	(12)	–	(12)
PPE	–	(120)	(120)
Fair value gain – investment in equity instruments	12 144	6 36	18 180
Total Comprehensive Income for the period	1,059	1,345	2,248
Profit for the period attributable to:			
Owners of the parent [915 **– 90 – 72** + {(1,309 + 30 – 24) x 75%}]			1,739
Non-controlling interests [(1,309 + 30 – 24) x 25%]			329
			2,068
Total comprehensive income for the period attributable to:			
Owners of the parent (1,739 + 144 + 27)			1,910
Non-controlling interests [329 + (36 x 25%)]			338
			2,248

Basic earnings per share	1.53 [1]	13.09 [2]	2.90 [3]

[1] (CU 915 ÷ 600) [2] (CU 1,309 ÷ 100) [3] (CU 1,739 ÷ 600)

Reconciliation

Profit for the period: P	915
S	1,309
Inter company dividend (75% of CU 120)	(90)
Additional depreciation on PPE [CU (300 ÷ 3) + (120 ÷ 3)]	(140)
Amortisation written back for IA (CU 150 ÷ 3)	50
Decrease in value of inventories (CU 100 x 60%)	60
Unrealised profit [(CU 3,000 x 1/5 x 20%) x 60%]	(72)
Deferred tax liability reversed [(CU 120 ÷ 3) + (CU 48 ÷ 3)]	56
Deferred tax asset reversed (CU 60 ÷ 3)	(20)
Profit for the period	**2,068**

Total comprehensive income for the period:

Profit for the period	2,068
Other Comprehensive Income: P	144
S	36
	2,248

Statement of Changes in Equity of P for the period ended 31 March 20x4

	Share Capital (A)	Retained earnings (B)	*Other equity (net of tax)*			Total (C)	Total equity (A+B+C)
			Revaluation surplus		Fair value gain		
			PPE	IA	Inv. in EI		
Balance bf (1 April 20x3)	6,000	675	36	12	12	60	6,735
Profit for the period		915					915
Other comprehensive income			144	(12)	12	144	144
Transferred to retained earnings		24	(12)		(12)	(24)	–
Payment of dividends		(240)					(240)
Balance cf (31 March 20x4)	**6,000**	**1,374**	**168**	**–**	**12**	**180**	**7,554**

Statement of Changes in Equity of S for the period ended 31 March 20x4

	Share Capital (A)	Retained earnings (B)	*Other equity (net of tax)* Revaluation surplus PPE	Revaluation surplus IA	Fair value gain Inv. in EI	Total (C)	Total equity (A+B+C)
Balance bf (1 April 20x3)	1,000	1,025	150	90	12	252	2,277
Profit for the period		1,309					1,309
Other comprehensive income			30		6	36	36
Transferred to retained earnings		108	(60)	(30)	(18)	(108)	–
Payment of dividends		(120)					(120)
Balance cf (31 March 20x4)	**1,000**	**2,322**	**120**	**60**	**–**	**180**	**3,502**

Consolidated Statement of Changes in Equity for the period ended 31 March 20x4

	Share Capital (A)	Retained earnings (B)	*Other equity (net of tax)* RS PPE	RS IA	FVG Inv. in EI	Attributable to Owners of the Parent (C)	Attributable to NCI (D)	Total equity (A+B+C+D)
Balance bf (1 April 20x3)	6,000	675	186	102	24	60	572	7,307
Profit and Loss		1,739 [2]					329 [1]	2,068
Other comprehensive income			174	(12)	18	171	9	180
Transferred to retained earnings		24	(72)	(30)	(30)	(24)		–
Payment of dividends		(240)					(30)	(270)
Balance cf (31 March 20x4)	**6,000**	**2,198**	**288**	**60**	**12**	**207**	**880**	**9,285**

PPE – *Property, Plant and Equipment*, IA – *Intangible Assets*, Inv. in EI – *Investment in equity instruments*, NCI – *Non-controlling interest*, RS – *Revaluation surplus*, FVG – *Fair Value gain*, OCE – *Other Components of Equity* (net of tax)

1

S – Profit for the period	1,309
Additional depreciation on PPE (CU 420 ÷ 3)	(140)
Amortisation written back for IA (CU 150 ÷ 3)	50
Decrease in value of Inventories (CU 100 x 60%)	60
Deferred tax liability reversed (CU 120 ÷ 3) + (48 ÷ 3)	56
Deferred tax asset reversed (CU 60 ÷ 3)	(20)
	1,315

2

P – Profit for the period	915
S – Profit for the period attributable to P	986
Inter-company dividend (75% of 120)	(90)
Unrealised Profit [(3,000 x 1/5 x 20%) x 60%]	(72)
	1,739

P's share – CU 1,315 x 75% = CU 986 ; S's share – CU 1,315 x 25% = CU 329.

Balance Sheet as at 31 March 20x4

	P	S	Consolidated
Assets			
Non-current assets			
Goodwill	–	–	2,079
Property, plant and equipment	1,850	2,725	**4,855**
Intangible assets	40	600	**540**
Investment in equity instruments	120	50	170
Investment in S	3,920	–	–
Deferred tax assets	148	100	**300**
Current assets			
Inventories	765	886	**1,631**
Trade receivables	196	298	494
Other current assets	1,088	817	1,905
Cash and cash equivalents	3,113	3,504	6,617
	11,240	**8,980**	**18,591**
Equity and Liabilities			
Equity			
Share Capital (CU 10 shares)	6,000	1,000	6,000
Retained earnings	1,374	2,322	**2,198**
Other components of equity	180	180	**207**
Non-controlling interest	–	–	880
Non-current liabilities			
10% Bonds	1,500	–	1,500
8% Bonds	–	1,000	1,000
Deferred tax liabilities	204	240	**556**
Current liabilities			
Trade payables	271	993	1,294
Short-term borrowings	363	2,700	3,063
Short-term provisions	130	–	**130**
Current tax liability (@ 40%)	668	545	1,213
Deferred consideration	550	–	550
	11,240	**8,980**	**18,591**

Statement of Cash Flows for the period ended 31 March 20x4

	P	S	Consolidated
Cash Flows from Operating Activities			
Accounting profit	1,559	2,082	3,441
Adjustments for –			
Other income	(100)	(150)	**(160)**
Other expenses	1,050	1,270	**2,410**
Deferred consideration	50	-	50
Contingent consideration	100	-	100
Operating profit before working capital changes	2,659	3,202	5,841
Movements in working capital –			
Increase in inventories	(133)	(234)	**(347)**
Decrease in trade receivables	29	17	46
Increase in other current assets	(573)	(700)	(1,273)
Increase in trade payables	144	410	554
Cash generated from operations	2,126	2,695	4,821
Income tax paid	(522)	(632)	(1,154)
NET CASH FLOWS FROM OPERATING ACTIVITIES (A)	**1,604**	**2,063**	**3,667**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	(110)	(75)	(185)
Sale of investments in equity instruments	120	130	250
Sale of Investment in subsidiary	80	-	80
Investment in equity instruments	–	(50)	(50)
Contingent consideration	(1,100)	-	(1,100)
Dividends received	100	150	**160**
NET CASH FLOWS FROM INVESTING ACTIVITIES (B)	**(910)**	**155**	**(845)**
Cash Flows from Financing Activities			
Issue of 10 % Bonds	500	–	500
Interest on 10% Bonds	(125)	–	(125)
Redemption of 8% Bonds	–	(500)	(500)
Interest on 8% Bonds	–	(120)	(120)
Payment of short-term borrowings	(137)	–	(137)
Proceeds from short-term borrowings	–	1,900	1,900
Interest on short-term borrowings	(45)	(50)	(95)
Dividends paid	(240)	(120)	**(270)**
NET CASH FLOWS FROM FINANCING ACTIVITIES (C)	**(47)**	**1,110**	**1,153**
Net increase in cash and cash equivalents (A + B + C)	647	3,328	3,975
Cash and cash equivalents at 1 April 20x3	2,466	176	2,642
Cash and cash equivalents at 31 March 20x4	3,113	3,504	6,617

WORKED EXAMPLE 7 **5.32**

On 1 January 20x3, Alpha acquired a 30% equity interest of Beta for a consideration of CU 40. On 1 January 20x5, Alpha further acquired a 50% interest of Beta for a consideration of CU 80. On that date (the acquisition date), the fair value of the identifiable assets of Beta are measured at CU 150 and the fair value of liabilities are measured at CU 30. The fair value of Alpha's original 30% holding was CU 48 and the fair value of the 20% non-controlling interest is CU 32 based on the market price of the shares.

	Proportionate share [1] (CU)	Fair Value [2] (CU)
Fair Value of consideration	80	80
Non-controlling interests	24 (CU 120 x 20%)	32 (CU80 ÷ 50 x 20)
Previously-held interests	48 [3] (CU80 ÷ 50 x 30)	48 [3]
	152	160
Fair value of identifiable net assets (CU 150 – CU 30)	(120)	(120)
Goodwill	32 [4]	40 [4]

[1] Under this method, the carrying amount of goodwill only relates to the parent's element of such goodwill, ie, the non-controlling interest does not reflect its share of the subsidiary's goodwill. In effect, any impairment of goodwill would only be charged against the parent's interest.

[2] This method increases the non-controlling interest's ownership of the subsidiary's goodwill as well as the non-controlling interests, both by the same amount. In effect, any impairment of goodwill is charged both to controlling and non-controlling interests (in proportion to their holding).

[3] Alpha should transfer for previously-held interests CU 5.6 [(CU 48 – CU 40) x 70%] from Other Comprehensive Income to Retained Earnings (assuming Income Tax rate is 30%).

[4] Goodwill of subsidiary – recognised CU 32
Unrecognised CU 8 (40 – 32)
Total CU 40

Impairment of goodwill

Goodwill is always tested for impairment at least once in a year irrespective of whether there are impairment indicators or not. As per paragraph C3 of Ind AS 36 "Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit."

(a) Proportionate share

The following is the calculation of impairment loss of goodwill as on 30 June 20x5 –

Cash-generating units	Alpha		Beta
	1	2	
Carrying amount (before allocation)	120	50	80
Allocated net assets of Beta	–	20	–
Allocated goodwill (recognised CU 32)	12	4	16
	132	74	96
Unrecognised goodwill (CU 8)	3	1	4

Carrying amount (after allocation) (A)	135	75	100
Recoverable amount (B)	130	80	90
Impairment loss (A – B)	5	–	10

Total impairment loss is CU (5 + 10) = CU 15. Because the goodwill is recognised only to the extent of Alpha's 80% ownership interest in Beta, Alpha recognises only 80% of that goodwill impairment loss, ie, 80% of CU 15 = CU 12.

Retained earnings	CU 12	
Goodwill		CU 12

(b) **Fair value**

The following is the calculation of impairment loss of goodwill as on 30 June 20x5 – **(CU)**

Cash-generating units	Alpha		Beta
	1	2	
Carrying amount (before allocation)	120	50	80
Allocated net assets of Beta	–	20	–
Allocated goodwill (Total CU 40)	15	5	20
Carrying amount (after allocation) (A)	135	75	100
Recoverable amount (B)	130	80	90
Impairment loss (A – B)	5	–	10

Total impairment loss is CU (5 + 10) = CU 15. Following are the points to be noted:

1. According to **paragraph C 6 of Ind AS 36**, "If a subsidiary or part of a subsidiary, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated." In this case, the impairment loss of goodwill of cash generating unit Beta is to be shared by Alpha and Beta in the ratio of 8 : 2 respectively.

Journal

Retained earnings	CU 8	
Non-controlling interest	CU 2	
Goodwill		CU 10

2. As per **paragraph 80 of Ind AS 36**, "goodwill is allocated to each of the acquirer's cash-generating units expected to benefit from the synergies of the business combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those entities. Therefore, it is possible that some of the synergies resulting from a business combination will be allocated to a cash-generating unit in which non-controlling interest does not have an interest." For example, in this case, cash-generating unit 1 of Alpha. Therefore, the entire goodwill impairment loss is to be charged to Alpha.

Journal

Retained earnings	CU 5	
Goodwill		CU 5

Asset acquisition or business combination?

A business combination is a transaction or event in which an acquirer obtains control of a business rather than an entity (which may not meet the definition of a business).

The reason for the amendment to the definition of a business is that transactions that **are more akin to asset acquisitions are being accounted for as business combinations.**

At first, an entity must determine whether an integrated set of assets and activities (collectively a **set**) should be accounted for as an acquisition of a business or group of assets. **An asset acquisition** is an acquisition of an asset, or group of assets, that **does not meet the definition of a business**. **In effect**, such an acquisition does not meet the definition of a **business combination**. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition.

It is relatively easy to determine, in most cases, whether a group of acquired assets and assumed liabilities (an integrated set of assets and activities) constitute a business. But, there are some cases, where the determination can be complicated. **When the fair value of the acquired group is concentrated in just one or few similar assets, or there are little or no operations.**

Distinguishing between the acquisition of a business and the acquisition of an asset or group of assets is important because, there are differences between the accounting for an asset acquisition and the accounting for a business combination. **For example**, in a business combination, the assets acquired are recognised at fair value (with limited exceptions) and goodwill/bargain purchase is recognised, whereas in an asset acquisition, the cost of the acquisition is allocated to the assets acquired on a relative fair value basis and no goodwill/bargain purchase is recognised. *Secondly*, deferred taxes are recognised in a business combination, but not on asset acquisition. *Lastly*, in a business combination, transaction costs are not included as part of the consideration transferred. But, transaction costs are generally a component of the consideration transferred to acquire the group of assets in an asset acquisition, and are capitalised as a part of the cost of the assets acquired in accordance with the applicable standards (eg, Property, plant and equipment or investment property.)

The optional concentration test

Once an entity has identified the acquired set of assets and activities, it then evaluates by applying the optional concentration test whether the set is not a business. The **concentration test** is designed to identify a transaction that is clearly more akin to an asset acquisition and remove it from the scope of the business combination guidance. The concentration test is intended to reduce the number of transactions that an entity must further evaluate to determine whether they are asset acquisitions or business combinations. **A transaction does not automatically become a business combination if the concentration test is not met**, ie, does not result in an asset acquisition. **An entity then need to assess the transaction under the full framework, ie, elements of a business (discussed later).**

Chapter 6

Ind AS 112: Disclosure of Interests in Other Entities

OBJECTIVE 6.1

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate –

- the nature of, and risks associated with, its *interest in other entities*; and
- the effects of those interests on its financial position, financial performance and cash flows.

Interest in other entities

For the purpose of this Standard, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. *An entity does not necessarily have an interest in another entity solely because of a typical customer-supplier relationship.*

Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this Ind AS. That assessment shall include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entry and other parties.

Nature of risks from interests in unconsolidated structured entities **6.15**

In addition to the information required for nature of risks, an entity shall disclose additional information that is necessary to meet the disclosure objective.

Examples of additional information that, depending on the circumstances might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in an unconsolidated structured entity are –

- The terms of an arrangement that could require the entity to provide financial support to an unconsolidated structured entity (eg, liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support), including :
  - a description of events or circumstances that could expose the reporting entity to a loss.
  - whether there are any terms that would limit the obligation.
  - whether there are any other parties that provide financial support and, if so, how the reporting entity's obligation ranks with those of other parties.
- losses incurred by the entity during the reporting period relating to its interests in unconsolidated structured entities.
- the types of income the entity received during the reporting period from its interests in unconsolidated structured entities.
- whether the entity is required to absorb losses of an unconsolidated structured entity before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the unconsolidated structured entity.
- information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in unconsolidated structured entities.
- any difficulties an unconsolidated structured entity has experienced in financing its activities during the reporting period.
- in relation to the funding of an unconsolidated structured entity, the forms of funding (eg, commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analyses of the assets and funding of an unconsolidated structured entity if the structured entity has longer-term assets funded by shorter-term funding.