Ind AS 103 – Business Combinations

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Disclosures

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Scope

- All transactions or events that meet the definition of a business combination

Exception:
- Formation of joint venture
- Acquisition of assets not constituting business

- Acquisition method is applied

- Does not apply to the acquisition by an investment entity, as defined in Ind AS 110

- Accounting for combination of entities or businesses under common control

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Definition – Business

An integrated set of activities, capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants.

Consists of inputs, processes and the ability to create outputs

Outputs are not required to qualify as a business

Rebuttable presumption that a group of assets in which goodwill is present is a business

Determination from the view of a market participant, rather than the specific acquirer

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Acquisition Method

1. Identify acquirer and determine acquisition date
2. Identify and measure consideration transferred
3. Recognise and measure identifiable assets and liabilities
4. Measure non-controlling interests
5. Determine goodwill or gain on a bargain purchase

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Identifying the acquirer

- Entity that obtains control of the acquiree

- Identified in the following steps:
  - ✓ Apply guidance in Ind AS 110 to determine who has control
  - ✓ Otherwise, additional factors identified in Ind AS 103

- Additional factors in Ind AS 103:
  - ✓ Acquirer is usually the entity that transfers cash/ assets or incurs liabilities
  - ✓ Entity that issues equity interests
  - ✓ Relative voting rights of combined entity
  - ✓ Composition of governing body / senior management of combined entity
  - ✓ Relative size of entities

- May result in a reverse acquisition

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Consideration Transferred

- Consideration transferred may include:
  - Assets transferred
  - Liabilities incurred to previous owners
  - Equity instruments issued
- Measure at fair value at the acquisition date
- Required to identify any items that are not part of the business combination and account for such items separately from business combination

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Contingent Consideration

- Recognised at fair value at the acquisition date
- Obligation by the acquirer to transfer additional assets or equity interest to the former owners of acquiree as part of the exchange for control if specified future events occur or conditions are met
- A financial instrument is classified as equity or a liability in accordance with Ind AS 32
- May even be an asset

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Payments to employees who are former owners of acquiree

Automatic forfeiture of payments when employment is terminated?

yes

Remuneration for future services

no

Additional factors to consider

- Duration of continuing employment
- Level of remuneration
- Linkage to valuation
- Incremental payments to employees
- Formula for determining consideration
- Number of shares owned
- Other agreements and issues

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Acquisition - related costs

- Expensed as incurred
- Except for those costs related to the issues of debt or equity instruments
  - Those costs are recognised in accordance with Ind AS 32 and Ind AS 109

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Identifiable assets acquired and liabilities assumed

- **General recognition principle**
  - Must meet definition of assets or liabilities at acquisition date
  - Must be exchanged as part of acquisition
- **General measurement principle**
  - Must be measured at fair value at acquisition date

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Exceptions to recognition and measurement principle

Exception to the recognition principle	Exceptions to both the recognition and measurement principles	Exceptions to the measurement principle
Contingent liabilities	Deferred tax assets/ liabilities and tax uncertainties	Reacquired rights
	Indemnification assets	Share-based payment awards
	Employee benefits	Assets held for sale or distribution

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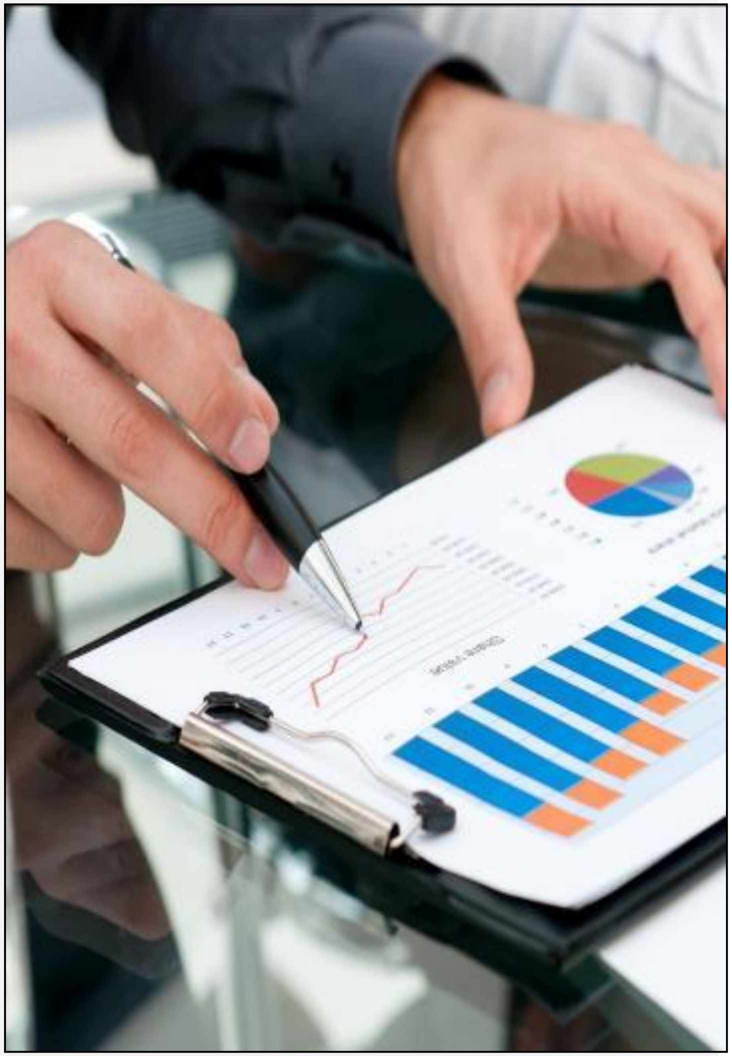
Non-controlling Interest

➢ **Measured at**

- Proportionate interest in fair value of identifiable net assets; or
- Fair value

➢ **On a transaction-by-transaction basis**



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Goodwill

Goodwill	=	Consideration transferred	+	NCI	–	Fair value of net identifiable assets
Not amortised – impairment testing		Include other assets transferred and equity instruments issued Measured at fair value		Option to measure at fair value or proportionate interest		May include assets and liabilities not previously recognised - e.g. certain intangible assets and contingent liabilities

"Bargain Purchase" if fair value of net assets and NCI exceeds consideration transferred – Recognised in other comprehensive income and accumulated in equity as capital reserve

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Common Control transactions

Additional guidance for common control transactions in Ind AS – Accounting to be done using pooling of interest method

1. The assets and liabilities are reflected at their carrying amounts
2. No adjustment to recognize new assets or liabilities
3. Restatement of prior period information
4. Securities received, recorded at nominal value and other assets at fair value
5. The identity of reserves is preserved
6. Excess or deficit, recorded as capital reserve

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Measurement Period

- **Period after acquisition date when entity can adjust preliminary business combination accounting**
  - If new information obtained about facts and circumstances that existed as of acquisition date
  - Ends when information obtained or determined not available
  - Cannot exceed one year
- **Retrospective adjustment**
- **Report in the financial statements provisional amounts for the items for which the accounting is incomplete**
- **Once measurement period elapses any business combination accounting adjustment is correction of error (Ind AS 8)**

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Acquisition in Stages (Step Acquisition)

- **Remeasure previously acquired non-controlling equity investment (NCEI) at fair value**
  - ✓ Adjustment in profit or loss

- **If changes in NCEI recognised in other comprehensive income**
  - ✓ Reclassify to profit or loss

- **Goodwill from previous acquisitions is ignored**

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Disclosures (1/2)

Specific disclosure requirements

- business combinations occurring during the reporting period;
- business combinations occurring after the reporting date but before the financial statements are authorized for issue; and
- adjustments recognized in the reporting period that relate to business combinations that occurred in the current or previous reporting periods.

Disclosures are required for each material business combination, or in aggregate for individually immaterial business combinations that are material collectively.

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Disclosures (2/2)

Additional disclosure requirements

- general information on the business combination;
- consideration transferred;
- assets acquired and liabilities assumed;
- goodwill (or a gain on a bargain purchase);
- transactions that are not part of the business combination;
- business combinations in which the acquirer holds less than 100 percent of the acquiree;
- step acquisitions;
- *pro forma* information about revenue and profit or loss; and
- adjustments, including measurement period adjustments and contingent consideration adjustments.

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