

INDIAN ACCOUNTING STANDARD 103  
***BUSINESS COMBINATIONS***

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## Indian Accounting Standard (Ind AS) 103

# Business Combinations<sup>#</sup>

(This Indian Accounting Standard includes paragraphs set out in **bold** type and plain type which have equal authority. Paragraphs in bold type indicate the main principles.)

## Objective

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- 1 The objective of this Indian Accounting Standard (Ind AS) is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a *business combination* and its effects. To accomplish that, this Ind AS establishes principles and requirements for how the *acquirer*:
- (a) recognises and measures in its financial statements the *identifiable* assets acquired, the liabilities assumed and any *non-controlling interest* in the *acquiree*;
  - (b) recognises and measures the *goodwill* acquired in the business combination or a gain from a bargain purchase<sup>1</sup>; and
  - (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

## Scope

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- 2 This Ind AS applies to a transaction or other event that meets the

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<sup>#</sup> This Ind AS was notified vide G.S.R. 111(E) dated 16<sup>th</sup> February, 2015 and was amended vide Notification No. G.S.R. 365(E) dated 30<sup>th</sup> March, 2016, G.S.R. 310(E) dated 28<sup>th</sup> March, 2018, G.S.R. 273(E) dated 30<sup>th</sup> March, 2019, G.S.R. 274(E) dated 30<sup>th</sup> March, 2019 and G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.

<sup>1</sup> In this standard as well as in all other Indian Accounting Standards, reference to bargain purchase gain arising on a business combination includes amounts recognised in paragraphs 34 and 36A of this Ind AS, as the case may be, unless otherwise specified.

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definition of a business combination. This Ind AS 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* 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 values* at the date of purchase. Such a transaction or event does not give rise to goodwill.
- (c) [Refer Appendix 1]

- 2A 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.
- 2B Appendix C deals with accounting for combination of entities or businesses under common control.

### Identifying a business combination

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- 3 **<sup>2</sup>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. Paragraphs B5–B12D provide guidance on identifying a business combination and the definition of a business.**

### The acquisition method

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- 4 **An entity shall account for each business combination by applying the acquisition method.**

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<sup>2</sup> Substituted vide Notification No. G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.

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- 5 Applying the acquisition method requires:
- (a) identifying the acquirer;
  - (b) determining the *acquisition date*;
  - (c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
  - (d) recognising and measuring goodwill or a gain from a bargain purchase.

**Identifying the acquirer**

- 6 **For each business combination, one of the combining entities shall be identified as the acquirer.**

- 7 The guidance in Ind AS 110 shall be used to identify the acquirer—the entity that obtains *control* of another entity, ie the acquiree. If a business combination has occurred but applying the guidance in Ind AS 110 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs B14–B18 shall be considered in making that determination.

**Determining the acquisition date**

- 8 **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.**

- 9 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. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

## **Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree**

### **Recognition principle**

- 10 **As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 11 and 12.**

### *Recognition conditions*

- 11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards* issued by the Institute of Chartered Accountants of India at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Ind AS.
- 12 In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree (or its former *owners*) exchanged in the business combination transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 51–53 to determine which assets acquired or liabilities assumed are part of the exchange for the acquiree and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable Ind AS.
- 13 The acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the

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acquiree had not previously recognised as assets and liabilities in its financial statements. For example, the acquirer recognises the acquired identifiable intangible assets, such as a brand name, a patent or a customer relationship, that the acquiree did not recognise as assets in its financial statements because it developed them internally and charged the related costs to expense.

- 14 <sup>3</sup>Paragraphs B31–B40 provide guidance on recognising intangible assets. Paragraphs 22–28B specify the types of identifiable assets and liabilities that include items for which this Ind AS provides limited exceptions to the recognition principle and conditions.

*Classifying or designating identifiable assets acquired and liabilities assumed in a business combination*

- 15 **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other Ind ASs subsequently. The acquirer shall make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.**

- 16 In some situations, Ind ASs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

- (a) classification of particular financial assets and liabilities as measured at fair value through profit or loss or at amortised cost, or as a financial asset measured at fair value through other comprehensive income in accordance with Ind AS 109, *Financial Instruments*;
- (b) designation of a derivative instrument as a hedging instrument in accordance with Ind AS 109; and
- (c) assessment of whether an embedded derivative should be separated from a host contract in accordance with Ind AS 109 (which is a matter of ‘classification’ as this Ind AS uses that term).

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<sup>3</sup> Substituted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

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17 This Ind AS provides two exceptions to the principle in paragraph 15:

- (a) <sup>4</sup>classification of a lease contract in which acquiree is the lessor as either an operating lease or a finance lease in accordance with Ind AS 116, *Leases*; and
- (b) classification of a contract as an insurance contract in accordance with Ind AS 104, *Insurance Contracts*.

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

**Measurement principle**

18 **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.**

19 For each business combination, the acquirer shall measure at the acquisition date components of non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

- (a) fair value; or
- (b) The present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by Ind AS.

20 Paragraphs 24–31 specify the types of identifiable assets and liabilities that include items for which this Ind AS provides limited exceptions to the measurement principle.

**Exceptions to the recognition or measurement principles**

21 This Ind AS provides limited exceptions to its recognition and measurement principles. Paragraphs 22–31 specify both the

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<sup>4</sup> Substituted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

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particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 22–31, which will result in some items being:

- (a) recognised either by applying recognition conditions in addition to those in paragraphs 11 and 12 or by applying the requirements of other Ind ASs, with results that differ from applying the recognition principle and conditions.
- (b) measured at an amount other than their acquisition-date fair values.

*Exception to the recognition principle*

**Contingent liabilities**

22 Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, defines a contingent liability as:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

23 The requirements in Ind AS 37 do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to Ind AS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Paragraph 56 provides guidance on the subsequent

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accounting for contingent liabilities.

*Exceptions to both the recognition and measurement principles*

**Income taxes**

- 24 The acquirer shall recognise and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with Ind AS 12, *Income Taxes*.
- 25 The acquirer shall account for the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with Ind AS 12.

**Employee benefits**

- 26 The acquirer shall recognise and measure a liability (or asset, if any) related to the acquiree's employee benefit arrangements in accordance with Ind AS 19, *Employee Benefits*.

**Indemnification assets**

- 27 The seller in a business combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognise the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph B41 provides related application guidance).
- 28 In some circumstances, the indemnification may relate to an asset or

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a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognised at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset shall be recognised and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectibility of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 57 provides guidance on the subsequent accounting for an indemnification asset.

**<sup>5</sup>Leases in which the acquiree is the lessee**

- 28A The acquirer shall recognise right-of-use assets and lease liabilities for leases identified in accordance with Ind AS 116 in which the acquiree is the lessee. The acquirer is not required to recognise right-of-use assets and lease liabilities for:
- (a) leases for which the lease term (as defined in Ind AS 116) ends within 12 months of the acquisition date; or
  - (b) leases for which the underlying asset is of low value (as described in paragraphs B3–B8 of Ind AS 116).
- 28B The acquirer shall measure the lease liability at the present value of the remaining lease payments (as defined in Ind AS 116) as if the acquired lease were a new lease at the acquisition date. The acquirer shall measure the right-of-use asset at the same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

*Exceptions to the measurement principle*

**Reacquired rights**

- 29 The acquirer shall measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals when

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<sup>5</sup> Heading and paragraphs 28A-28B inserted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

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measuring its fair value. Paragraphs B35 and B36 provide related application guidance.

**Share-based payment transactions**

- 30 The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer in accordance with the method in Ind AS 102, *Share-based Payment*, at the acquisition date. (This Ind AS refers to the result of that method as the 'market-based measure' of the share-based payment transaction.)

**Assets held for sale**

- 31 The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, at fair value less costs to sell in accordance with paragraphs 15–18 of that Ind AS.

**Recognising and measuring goodwill or a gain from a bargain purchase**

- 32 The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:
- (a) the aggregate of:
    - (i) the consideration transferred measured in accordance with this Ind AS, which generally requires acquisition-date fair value (see paragraph 37);
    - (ii) the amount of any non-controlling interest in the acquiree measured in accordance with this Ind AS; and
    - (iii) in a business combination achieved in stages (see paragraphs 41 and 42), the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
  - (b) the net of the acquisition-date amounts of the identifiable

**assets acquired and the liabilities assumed measured in accordance with this Ind AS.**

- 33 In a business combination in which the acquirer and the acquiree (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition-date fair value of the acquiree's equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in a business combination in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquiree in place of the acquisition-date fair value of the consideration transferred (paragraph 32(a)(i)). Paragraphs B46–B49 provide related application guidance.

**Bargain purchases**

- 34 In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination in which the amount in paragraph 32(b) exceeds the aggregate of the amounts specified in paragraph 32(a). If that excess remains after applying the requirements in paragraph 36, the acquirer shall recognise the resulting gain in other comprehensive income on the acquisition date and accumulate the same in equity as capital reserve. The gain shall be attributed to the acquirer.
- 35 A bargain purchase might happen, for example, in a business combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 22–31 may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.
- 36 Before recognising a gain on a bargain purchase, the acquirer shall determine whether there exists clear evidence of the underlying reasons for classifying the business combination as a bargain purchase. If such evidence exists, 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

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requires to be recognised at the acquisition date for all of the following:

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

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

- 36A If there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, the acquirer shall apply the requirements of reassessment and review described in paragraph 36. The excess, if any, as determined in accordance with paragraph 32 after applying the said requirements of paragraph 36, shall be recognised directly in equity as capital reserve.

**Consideration transferred**

- 37 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 payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with paragraph 30 rather than at fair value.) 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*.
- 38 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 (for example, 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

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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 (for example, because the assets 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.

#### *Contingent consideration*

- 39 The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 37). The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.
- 40 The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of Ind AS 32, *Financial Instruments: Presentation*. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 provides guidance on the subsequent accounting for contingent consideration.

### **Additional guidance for applying the acquisition method to particular types of business combinations**

#### **A business combination achieved in stages**

- 41 An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. For example, on 31 December 20X1, Entity A holds a 35 per cent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 per cent interest in Entity B, which gives it control of Entity B. This Ind AS refers to such a transaction as a business combination achieved in stages, sometimes also referred

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to as a step acquisition.

42 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, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

42A <sup>6</sup>When a party to a joint arrangement (as defined in Ind AS 111, *Joint Arrangements*) obtains control of a business that is a joint operation (as defined in Ind AS 111), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph 42. In doing so, the acquirer shall remeasure its entire previously held interest in the joint operation.

**A business combination achieved without the transfer of consideration**

43 An acquirer sometimes obtains control of an acquiree without transferring consideration. The acquisition method of accounting for a business combination applies to those combinations. Such circumstances include:

- (a) The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.
- (b) Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.
- (c) The acquirer and acquiree agree to combine their businesses by contract alone. The acquirer transfers no consideration in

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<sup>6</sup> Inserted vide Notification No. G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.

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exchange for control of an acquiree and holds no equity interests in the acquiree, either on the acquisition date or previously. Examples of business combinations achieved by contract alone include bringing two businesses together in a stapling arrangement or forming a dual listed corporation.

- 44 In a business combination achieved by contract alone, the acquirer shall attribute to the owners of the acquiree the amount of the acquiree's net assets recognised in accordance with this Ind AS. In other words, the equity interests in the acquiree held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the equity interests in the acquiree are attributed to the non-controlling interest.

### **Measurement period**

- 45 **If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.**
- 46 The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. The measurement period

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provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Ind AS:

- (a) the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;
- (b) the consideration transferred for the acquiree (or the other amount used in measuring goodwill);
- (c) in a business combination achieved in stages, the equity interest in the acquiree previously held by the acquirer; and
- (d) the resulting goodwill or gain on a bargain purchase.

47 The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value measured at that date is likely to indicate an error in the provisional amount.

48 The acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of a decrease (increase) in goodwill. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquiree's facilities, part or all of which are covered by the acquiree's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognised for the claim

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receivable from the insurer. If the adjustment results in reduction of goodwill and if the amount of adjustment exceeds the amount previously recognized as goodwill that excess shall be accounted for in accordance with paragraph 34 or paragraph 36A as applicable.

- 49 During the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.
- 50 After the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Determining what is part of the business combination transaction**

- 51 **The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the business combination began, or they may enter into an arrangement during the negotiations that is separate from the business combination. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination, ie amounts that are not part of the exchange for the acquiree. The acquirer shall recognise as part of applying the acquisition method only the consideration transferred for the acquiree and the assets acquired and liabilities assumed in the exchange for the acquiree. Separate transactions shall be accounted for in accordance with the relevant Ind AS.**
- 52 A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquiree (or its former owners) before the combination, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:
- (a) a transaction that in effect settles pre-existing relationships between the acquirer and acquiree;

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- (b) a transaction that remunerates employees or former owners of the acquiree for future services; and
- (c) a transaction that reimburses the acquiree or its former owners for paying the acquirer's acquisition-related costs.

Paragraphs B50-B62 provide related application guidance.

**Acquisition-related costs**

- 53 Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109.

## **Subsequent measurement and accounting**

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- 54 In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable Ind ASs for those items, depending on their nature. However, this Ind AS provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination:
- (a) reacquired rights;
  - (b) contingent liabilities recognised as of the acquisition date;
  - (c) indemnification assets; and
  - (d) contingent consideration.

Paragraph B63 provides related application guidance.

### Reacquired rights

- 55 A reacquired right recognised as an intangible asset shall be amortised over the remaining contractual period of the contract in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

### Contingent liabilities

- 56 <sup>7</sup>After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:
- (a) the amount that would be recognised in accordance with Ind AS 37; and
  - (b) the amount initially recognised less, if appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 115, *Revenue from Contracts with Customers*.

This requirement does not apply to contracts accounted for in accordance with Ind AS 109.

### Indemnification assets

- 57 At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectibility of the indemnification asset. The acquirer shall derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

### Contingent consideration

- 58 Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of

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<sup>7</sup> Substituted vide Notification No. G.S.R. 365(E) dated 30<sup>th</sup> March, 2016 and, thereafter, substituted vide Notification No. G.S.R. 310(E) dated 28<sup>th</sup> March, 2018.

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additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 45–49. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

- (a) Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.
- (b) Other contingent consideration that:
  - (i) is within the scope of Ind AS 109 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with Ind AS 109.
  - (ii) is not within the scope of Ind AS 109 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.

## **Disclosures**

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- 59**     **The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:**
  - (a) during the current reporting period; or**
  - (b) after the end of the reporting period but before the financial statements are approved for issue.**
- 60**     To meet the objective in paragraph 59, the acquirer shall disclose the information specified in paragraphs B64–B66.
- 61**     **The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or**

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**previous reporting periods.**

- 62 To meet the objective in paragraph 61, the acquirer shall disclose the information specified in paragraph B67.
- 63 If the specific disclosures required by this and other Ind ASs do not meet the objectives set out in paragraphs 59 and 61, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

**<sup>8</sup>Effective Date**

- 64 \*
- 64A \*
- 64B \*
- 64C \*
- 64D \*
- 64E \*
- 64F \*
- 64G \*
- 64H \*
- 64I \*
- 64J \*
- 64K As a consequence of issuance of Ind AS 115, paragraph 56 has been amended. An entity shall follow the amendment when it applies Ind AS 115.
- 64L<sup>9</sup> Omitted
- 64M Ind AS 116 amended paragraphs 14, 17, B32 and B42, deleted paragraphs B28–B30 and their related heading and added

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<sup>8</sup> Heading and paragraphs 64-64K inserted vide Notification No. G.S.R. 310(E) dated 28<sup>th</sup> March, 2018.

\* Refer Appendix 1

<sup>9</sup> Paragraphs 64L-64M inserted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

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paragraphs 28A–28B and their related heading. An entity shall apply those amendments when it applies Ind AS 116.

64N<sup>10</sup> \*

64O *Annual Improvements to Ind AS (2018)* added paragraph 42A. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 April, 2019.

64P <sup>11</sup>*Definition of a Business* (Amendments to Ind AS 103), added paragraphs B7A–B7C, B8A and B12A–B12D, amended the definition of the term ‘business’ in Appendix A, amended paragraphs 3, B7–B9, B11 and B12 and deleted paragraph B10. An entity shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after the 1<sup>st</sup> April, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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<sup>10</sup> Paragraphs 64N-64O inserted vide Notification No. G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.

\* Refer Appendix 1

<sup>11</sup> Inserted vide Notification No. G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.

## Appendix A

### Defined terms

*This appendix is an integral part of the Ind AS.*

<b>acquiree</b>	The business or businesses that the <b>acquirer</b> obtains control of in a <b>business combination</b> .
<b>acquirer</b>	The entity that obtains control of the <b>acquiree</b> .
<b>acquisition date</b>	The date on which the <b>acquirer</b> obtains control of the <b>acquiree</b> .
<b>business</b> <sup>12</sup>	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.
<b>business combination</b>	A transaction or other event in which an <b>acquirer</b> obtains control of one or more <b>businesses</b> . Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also <b>business combinations</b> as that term is used in this Ind AS.
<b>contingent consideration</b>	Usually, an obligation of the <b>acquirer</b> to transfer additional assets or <b>equity interests</b> to the former owners of an <b>acquiree</b> as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, <i>contingent consideration</i> also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.
<b>equity interests</b>	For the purposes of this Ind AS, <i>equity interests</i> is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of <b>mutual entities</b> .

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<sup>12</sup> Substituted vide Notification No. G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.

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<b>fair value</b>	<i>Fair value</i> is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Ind AS 113.)
<b>goodwill</b>	An asset representing the future economic benefits arising from other assets acquired in a <b>business combination</b> that are not individually identified and separately recognised.
<b>identifiable</b>	An asset is <i>identifiable</i> if it either: <ul style="list-style-type: none"><li>(a) is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or</li><li>(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.</li></ul>
<b>intangible asset</b>	An <b>identifiable</b> non-monetary asset without physical substance.
<b>mutual entity</b>	An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its <b>owners</b> , members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.
<b>non-controlling interest</b>	The equity in a subsidiary not attributable, directly or indirectly, to a parent.
<b>owners</b>	For the purposes of this Ind AS, <i>owners</i> is used broadly to include holders of <b>equity interests</b> of investor-owned entities and owners or members of, or participants in, <b>mutual entities</b> .

## Appendix B

### Application guidance

*This appendix is an integral part of the Ind AS.*

B1-B4 [Refer Appendix 1]

### Identifying a business combination (application of paragraph 3)

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- B5 This Ind AS defines a business combination as a transaction or other event in which an acquirer obtains control of one or more businesses. An acquirer might obtain control of an acquiree in a variety of ways, for example:
- (a) by transferring cash, cash equivalents or other assets (including net assets that constitute a business);
  - (b) by incurring liabilities;
  - (c) by issuing equity interests;
  - (d) by providing more than one type of consideration; or
  - (e) without transferring consideration, including by contract alone (see paragraph 43).
- B6 A business combination may be structured in a variety of ways for legal, taxation or other reasons, which include but are not limited to:
- (a) one or more businesses become subsidiaries of an acquirer or the net assets of one or more businesses are legally merged into the acquirer;
  - (b) one combining entity transfers its net assets, or its owners transfer their equity interests, to another combining entity or its owners;
  - (c) all of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity (sometimes referred to as a roll-up or put-together transaction); or

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- (d) a group of former owners of one of the combining entities obtains control of the combined entity.

### **Definition of a business (application of paragraph 3)**

B7 <sup>13</sup>A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows (see paragraphs B8-B12D for guidance on the elements of a business):

- (a) **Input:** Any economic resource that creates outputs, or has the ability to contribute to the creations of outputs, when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights and employees.
- (b) **Process:** Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creations of outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but the intellectual capacity of an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)
- (c) **Output:** The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities.

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<sup>13</sup> Substituted vide Notification No. G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.

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<sup>14</sup>**Optional test to identify concentration of fair value**

- B7A Paragraph B7B sets out an optional test (the concentration test) to permit a simplified assessment of whether an acquired set of activities and assets is not a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. The concentration test has the following consequences:-
- (a) if the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed;
  - (b) if the concentration test is not met, or if the entity elects not to apply the test, the entity shall then perform the assessment set out in paragraphs B8–B12D.
- B7B The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. For the concentration test:
- (a) gross assets acquired shall exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities;
  - (b) the fair value of the gross assets acquired shall include any consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired. The fair value of the gross assets acquired may normally be determined as the total obtained by adding the fair value of the consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) to the fair value of the liabilities assumed (other than deferred tax liabilities), and then excluding the items identified in sub-paragraph (a). However, if the fair value of the gross assets acquired is more than that total, a more precise calculation may sometimes be needed;

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<sup>14</sup> Heading and paragraphs B7A-B7C inserted vide Notification No. G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.

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- (c) a single identifiable asset shall include any asset or group of assets that would be recognised and measured as a single identifiable asset in a business combination;
- (d) if a tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset (or from an underlying asset subject to a lease, as defined in Ind AS 116, *Leases*), without incurring significant cost, or significant diminution in utility or fair value to either asset (for example, land and buildings), those assets shall be considered a single identifiable asset;
- (e) when assessing whether assets are similar, an entity shall consider the nature of each single identifiable asset and the risks associated with managing and creating outputs from the assets (that is, the risk characteristics);
- (f) the following shall not be considered similar assets:
  - (i) a tangible asset and an intangible asset;
  - (ii) tangible assets in different classes (for example, inventory, manufacturing equipment and automobiles) unless they are considered a single identifiable asset in accordance with the criterion in subparagraph (d);
  - (iii) identifiable intangible assets in different classes (for example, brand names, licences and intangible assets under development);
  - (iv) a financial asset and a non-financial asset;
  - (v) financial assets in different classes (for example, accounts receivable and investments in equity instruments); and
  - (vi) identifiable assets that are within the same class of asset but have significantly different risk characteristics.

B7C The requirements in paragraph B7B do not modify the guidance on similar assets in Ind AS 38, *Intangible Assets*; nor do they modify the meaning of the term 'class' in Ind AS 16, *Property, Plant and Equipment*, Ind AS 38 and Ind AS 107, *Financial Instruments: Disclosures*.

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<sup>15</sup>**Elements of a Business**

- B8 Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs. A business need not include all of the inputs or processes that the seller used in operating that business. However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Paragraphs B12-B12D specify how to assess whether a process is substantive.
- B8A <sup>16</sup>If an acquired set of activities and assets has outputs, continuation of revenue does not on its own indicate that both an input and a substantive process have been acquired.
- B9 <sup>17</sup>The nature of the elements of a business varies by industry and by the structure of an entity's operations (activities), including the entity's stage of development. Established businesses often have many different types of inputs, processes and outputs, whereas new businesses often have few inputs and processes and sometimes only a single output (product). Nearly all businesses also have liabilities, but a business need not have liabilities. Furthermore, an acquired set of activities and assets that is not a business might have liabilities.
- B10 [Refer Appendix 1]
- B11 Determining whether a particular set of activities and assets is a business shall be based on whether the integrated set is capable of being conducted and managed as a business by a market participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a

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<sup>15</sup> Heading and paragraph B8 substituted vide Notification No. G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.

<sup>16</sup> Inserted vide Notification No. G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.

<sup>17</sup> Paragraphs B9-B12 substituted vide Notification No. G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.

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business or whether the acquirer intends to operate the set as a business.

**Assessing whether an acquired process is substantive**

- B12 Paragraphs B12A–B12D explain how to assess whether an acquired process is substantive if the acquired set of activities and assets does not have outputs (paragraph B12B) and if it does have outputs (paragraph B12C).
- B12A <sup>18</sup>An example of an acquired set of activities and assets that does not have outputs at the acquisition date is an early-stage entity that has not started generating revenue. Moreover, if an acquired set of activities and assets was generating revenue at the acquisition date, it is considered to have outputs at that date, even if subsequently it will no longer generate revenue from external customers, for example because it will be integrated by the acquirer.
- B12B If a set of activities and assets does not have outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive only if:
- (a) it is critical to the ability to develop or convert an acquired input or inputs into outputs; and
  - (b) the inputs acquired include both an organised workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. Those other inputs could include:
    - (i) intellectual property that could be used to develop a good or service;
    - (ii) other economic resources that could be developed to create outputs; or
    - (iii) rights to obtain access to necessary materials or rights that enable the creation of future outputs.

Examples of the inputs mentioned in subparagraphs (b)(i)–(iii) include

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<sup>18</sup> Paragraphs B12A–B12D inserted vide Notification No. G.S.R. 463(E) dated 24th July, 2020.

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technology, in-process research and development projects, real estate and mineral interests.

- B12C If a set of activities and assets has outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive if, when applied to an acquired input or inputs, it:
- (a) is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process (or group of processes); or
  - (b) significantly contributes to the ability to continue producing outputs and:
    - (i) is considered unique or scarce; or
    - (ii) cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.
- B12D The following additional discussion supports both paragraphs B12B and B12C:
- (a) an acquired contract is an input and not a substantive process. Nevertheless, an acquired contract, for example, a contract for outsourced property management or outsourced asset management, may give access to an organised workforce. An entity shall assess whether an organised workforce accessed through such a contract performs a substantive process that the entity controls, and thus has acquired. Factors to be considered in making that assessment include the duration of the contract and its renewal terms.
  - (b) difficulties in replacing an acquired organised workforce may indicate that the acquired organised workforce performs a process that is critical to the ability to create outputs.
  - (c) a process (or group of processes) is not critical if, for example, it is ancillary or minor within the context of all the processes required to create outputs.

## Identifying the acquirer (application of paragraphs 6 and 7)

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- B13 The guidance in Ind AS 110, *Consolidated Financial Statements*, shall be used to identify the acquirer—the entity that obtains control of the acquiree. If a business combination has occurred but applying the guidance in Ind AS 110 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs B14–B18 shall be considered in making that determination.
- B14 In a business combination effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.
- B15 In a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called ‘reverse acquisitions’, the issuing entity is the acquiree. Paragraphs B19–B27 provide guidance on accounting for reverse acquisitions. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including:
- (a) *the relative voting rights in the combined entity after the business combination*—The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. In determining which group of owners retains or receives the largest portion of the voting rights, an entity shall consider the existence of any unusual or special voting arrangements and options, warrants or convertible securities.
  - (b) *the existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest*—The acquirer is usually the combining entity whose single owner or organised group of owners holds the largest minority voting interest in the combined entity.
  - (c) *the composition of the governing body of the combined entity*—The acquirer is usually the combining entity whose

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owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.

- (d) *the composition of the senior management of the combined entity*—The acquirer is usually the combining entity whose (former) management dominates the management of the combined entity.
- (e) *the terms of the exchange of equity interests*—The acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.

- B16 The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profit) is significantly greater than that of the other combining entity or entities.
- B17 In a business combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities.
- B18 A new entity formed to effect a business combination is not necessarily the acquirer. If a new entity is formed to issue equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer by applying the guidance in paragraphs B13–B17. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

## **Reverse acquisitions**

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- B19 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 in paragraphs B13–B18. 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

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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 paragraphs B13–B18 results in identifying:

- (a) the public entity as the **acquiree** for accounting purposes (the accounting acquiree); and
- (b) 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 Ind AS, including the requirement to recognise goodwill, apply.

### **Measuring the consideration transferred**

- B20 In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquiree. Instead, the accounting acquiree usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquiree is based on the number of equity interests the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquiree.

### **Preparation and presentation of consolidated financial statements**

- B21 Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree) but described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the

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accounting acquiree. That adjustment is required to reflect the capital of the legal parent (the accounting acquiree). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal parent (accounting acquiree).

B22 Because the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary except for its capital structure, the consolidated financial statements reflect:

- (a) the assets and liabilities of the legal subsidiary (the accounting acquirer) recognised and measured at their pre-combination carrying amounts.
- (b) the assets and liabilities of the legal parent (the accounting acquiree) recognised and measured in accordance with this Ind AS.
- (c) the retained earnings and other equity balances of the legal subsidiary (accounting acquirer) **before** the business combination.
- (d) the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the business combination to the fair value of the legal parent (accounting acquiree). However, the equity structure (ie the number and type of equity interests issued) reflects the equity structure of the legal parent (the accounting acquiree), including the equity interests the legal parent issued to effect the combination. Accordingly, the equity structure of the legal subsidiary (the accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of the legal parent (the accounting acquiree) issued in the reverse acquisition.
- (e) the non-controlling interest's proportionate share of the legal subsidiary's (accounting acquirer's) pre-combination carrying amounts of retained earnings and other equity interests as discussed in paragraphs B23 and B24.

### **Non-controlling interest**

- B23 In a reverse acquisition, some of the owners of the legal acquiree (the accounting acquirer) might not exchange their equity interests for equity interests of the legal parent (the accounting acquiree). Those owners are treated as a non-controlling interest in the consolidated financial statements after the reverse acquisition. That is because the owners of the legal acquiree that do not exchange their equity interests for equity interests of the legal acquirer have an interest in only the results and net assets of the legal acquiree—not in the results and net assets of the combined entity. Conversely, even though the legal acquirer is the acquiree for accounting purposes, the owners of the legal acquirer have an interest in the results and net assets of the combined entity.
- B24 The assets and liabilities of the legal acquiree are measured and recognised in the consolidated financial statements at their pre-combination carrying amounts (see paragraph B22(a)). Therefore, in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-combination carrying amounts of the legal acquiree's net assets even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.

### **Earnings per share**

- B25 As noted in paragraph B22(d), the equity structure in the consolidated financial statements following a reverse acquisition reflects the equity structure of the legal acquirer (the accounting acquiree), including the equity interests issued by the legal acquirer to effect the business combination.
- B26 In calculating the weighted average number of ordinary shares<sup>19</sup> outstanding (the denominator of the earnings per share calculation) during the period in which the reverse acquisition occurs:
- (a) the number of ordinary shares outstanding from the beginning of that period to the acquisition date shall be computed on the

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<sup>19</sup> In Indian context, the term 'ordinary shares' is equivalent to 'equity shares'.

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basis of the weighted average number of ordinary shares of the legal acquiree (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement; and

- (b) the number of ordinary shares outstanding from the acquisition date to the end of that period shall be the actual number of ordinary shares of the legal acquirer (the accounting acquiree) outstanding during that period.

B27 The basic earnings per share for each comparative period before the acquisition date presented in the consolidated financial statements following a reverse acquisition shall be calculated by dividing:

- (a) the profit or loss of the legal acquiree attributable to ordinary shareholders in each of those periods by
- (b) the legal acquiree's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition agreement.

## **Recognising particular assets acquired and liabilities assumed (application of paragraphs 10–13)**

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B28<sup>20</sup> \*

B29 \*

B30 \*

### **Intangible assets**

B31 The acquirer shall recognise, separately from goodwill, the identifiable intangible assets acquired in a business combination. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal criterion.

B32 An intangible asset that meets the contractual-legal criterion is

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<sup>20</sup> Heading and paragraphs B28-B30 omitted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

\* Refer Appendix 1.

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identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. For example:

- (a)<sup>21</sup> \*
- (b) an acquiree owns and operates a nuclear power plant. The licence to operate that power plant is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognise the fair value of the operating licence and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.
- (c) an acquiree owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related licence agreement meet the contractual-legal criterion for recognition separately from goodwill even if selling or exchanging the patent and the related licence agreement separately from one another would not be practical.

B33 The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquiree and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, customer and subscriber lists are frequently licensed and thus meet the separability criterion.

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<sup>21</sup> Omitted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

\* Refer Appendix 1.

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Even if an acquiree believes its customer lists have characteristics different from other customer lists, the fact that customer lists are frequently licensed generally means that the acquired customer list meets the separability criterion. However, a customer list acquired in a business combination would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its customers.

- B34 An intangible asset that is not individually separable from the acquiree or combined entity meets the separability criterion if it is separable in combination with a related contract, identifiable asset or liability. For example:
- (a) market participants exchange deposit liabilities and related depositor relationship intangible assets in observable exchange transactions. Therefore, the acquirer should recognise the depositor relationship intangible asset separately from goodwill.
  - (b) an acquiree owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquiree or combined entity and sold if the related trademark is sold, it meets the separability criterion.

### **Reacquired rights**

- B35 As part of a business combination, an acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets. Examples of such rights include a right to use the acquirer's trade name under a franchise agreement or a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognises separately from goodwill. Paragraph 29 provides guidance on measuring a reacquired right and paragraph 55 provides guidance on the

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subsequent accounting for a reacquired right.

- B36 If the terms of the contract giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognise a settlement gain or loss. Paragraph B52 provides guidance for measuring that settlement gain or loss.

**Assembled workforce and other items that are not identifiable**

- B37 The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired business from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialised) knowledge and experience that employees of an acquiree bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognised separately from goodwill, any value attributed to it is subsumed into goodwill.
- B38 The acquirer also subsumes into goodwill any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential contracts the acquiree is negotiating with prospective new customers at the acquisition date. Because those potential contracts are not themselves assets at the acquisition date, the acquirer does not recognise them separately from goodwill. The acquirer should not subsequently reclassify the value of those contracts from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognisable intangible asset existed at the acquisition date.
- B39 After initial recognition, an acquirer accounts for intangible assets acquired in a business combination in accordance with the provisions of Ind AS 38, *Intangible Assets*. However, as described in paragraph 3 of Ind AS 38, the accounting for some acquired intangible assets after initial recognition is prescribed by other Ind

ASs.

- B40 The identifiability criteria determine whether an intangible asset is recognised separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future contract renewals, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 29, which establishes an exception to the fair value measurement principle for reacquired rights recognised in a business combination.) Paragraphs 36 and 37 of Ind AS 38 provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets.

## **Measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree (application of paragraphs 18 and 19)**

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### **Assets with uncertain cash flows (valuation allowances)**

- B41 The acquirer shall not recognise a separate valuation allowance as of the acquisition date for assets acquired in a business combination that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Ind AS requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values in accounting for a business combination, the acquirer does not recognise a separate valuation allowance for the contractual cash flows that are deemed to be uncollectible at that date or a loss allowance for expected credit losses.

**Assets subject to operating leases in which the acquiree is the lessor**

- B42 <sup>22</sup>In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the acquirer shall take into account the terms of the lease. The acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favourable or unfavourable when compared with market terms.

**Assets that the acquirer intends not to use or to use in a way that is different from the way other market participants would use them**

- B43 To protect its competitive position, or for other reasons, the acquirer may intend not to use an acquired non-financial asset actively, or it may not intend to use the asset according to its highest and best use. For example, that might be the case for an acquired research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer shall measure the fair value of the non-financial asset assuming its highest and best use by market participants in accordance with the appropriate valuation premise, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.

**Non-controlling interest in an acquiree**

- B44 This Ind AS allows the acquirer to measure a non-controlling interest in the acquiree at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (ie those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques.
- B45 The fair values of the acquirer's interest in the acquiree and the non-

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<sup>22</sup> Substituted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquiree or, conversely, the inclusion of a discount for lack of control (also referred to as a non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.

## **Measuring goodwill or a gain from a bargain purchase**

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### **Measuring the acquisition-date fair value of the acquirer's interest in the acquiree using valuation techniques (application of paragraph 33)**

- B46 In a business combination achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquiree for the acquisition-date fair value of the consideration transferred to measure goodwill or a gain on a bargain purchase (see paragraphs 32–34 and 36A).

### **Special considerations in applying the acquisition method to combinations of mutual entities (application of paragraph 33)**

- B47 When two mutual entities combine, the fair value of the equity or member interests in the acquiree (or the fair value of the acquiree) may be more reliably measurable than the fair value of the member interests transferred by the acquirer. In that situation, paragraph 33 requires the acquirer to determine the amount of goodwill by using the acquisition-date fair value of the acquiree's equity interests instead of the acquisition-date fair value of the acquirer's equity interests transferred as consideration. In addition, the acquirer in a combination of mutual entities shall recognise the acquiree's net assets as a direct addition to capital or equity in its balance sheet, not as an addition to retained earnings, which is consistent with the way in which other types of entities apply the acquisition method.
- B48 Although they are similar in many ways to other businesses, mutual

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entities have distinct characteristics that arise primarily because their members are both customers and owners. Members of mutual entities generally expect to receive benefits for their membership, often in the form of reduced fees charged for goods and services or patronage dividends. The portion of patronage dividends allocated to each member is often based on the amount of business the member did with the mutual entity during the year.

- B49 A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, a present value technique may be used to measure the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as reduced fees charged for goods and services.

## **Determining what is part of the business combination transaction (application of paragraphs 51 and 52)**

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- B50 The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquiree or whether the transaction is separate from the business combination:
- (a) **the reasons for the transaction**—Understanding the reasons why the parties to the combination (the acquirer and the acquiree and their owners, directors and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquiree or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquiree. Accordingly, the acquirer would account for that portion separately from the

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business combination.

- (b) **who initiated the transaction**—Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquiree or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquiree or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the business combination transaction.
- (d) **the timing of the transaction**—The timing of the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction between the acquirer and the acquiree that takes place during the negotiations of the terms of a business combination may have been entered into in contemplation of the business combination to provide future economic benefits to the acquirer or the combined entity. If so, the acquiree or its former owners before the business combination are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

**Effective settlement of a pre-existing relationship between the acquirer and acquiree in a business combination (application of paragraph 52(a))**

- B51 The acquirer and acquiree may have a relationship that existed before they contemplated the business combination, referred to here as a 'pre-existing relationship'. A pre-existing relationship between the acquirer and acquiree may be contractual (for example, vendor and customer or licensor and licensee) or non-contractual (for example, plaintiff and defendant).
- B52 If the business combination in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:
  - (a) for a pre-existing non-contractual relationship (such as a

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lawsuit), fair value.

- (b) for a pre-existing contractual relationship, the lesser of (i) and (ii):
  - (i) the amount by which the contract is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.)
  - (ii) the amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable.

If (ii) is less than (i), the difference is included as part of the business combination accounting.

The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

- B53 A pre-existing relationship may be a contract that the acquirer recognises as a reacquired right. If the contract includes terms that are favourable or unfavourable when compared with pricing for current market transactions for the same or similar items, the acquirer recognises, separately from the business combination, a gain or loss for the effective settlement of the contract, measured in accordance with paragraph B52.

**Arrangements for contingent payments to employees or selling shareholders (application of paragraph 52(b))**

- B54 Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the business combination or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who

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initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

B55 If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquiree or is a transaction separate from the business combination, the acquirer should consider the following indicators:

- (a) *Continuing employment*—The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.
- (b) *Duration of continuing employment*—If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.
- (c) *Level of remuneration*—Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.
- (d) *Incremental payments to employees*—If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is remuneration.

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- (e) *Number of shares owned*—The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned substantially all of the shares in the acquiree continue as key employees, that fact may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide remuneration for post-combination services. Alternatively, if selling shareholders who continue as key employees owned only a small number of shares of the acquiree and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to selling shareholders who continue as key employees, such as family members, should also be considered.
- (f) *Linkage to the valuation*—If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquiree and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior profit-sharing arrangements, that fact may suggest that the substance of the arrangement is to provide remuneration.
- (g) *Formula for determining consideration*—The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the business combination and that the formula is intended to establish or verify the fair value of the acquiree. In contrast, a contingent payment that is a specified percentage of earnings might suggest that the obligation to employees is a profit-sharing arrangement to remunerate employees for services rendered.
- (h) *Other agreements and issues*—The terms of other

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arrangements with selling shareholders (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquiree. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant selling shareholder. If the lease payments specified in the lease contract are significantly below market, some or all of the contingent payments to the lessor (the selling shareholder) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognise separately in its post-combination financial statements. In contrast, if the lease contract specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the selling shareholder may be contingent consideration in the business combination.

**Acquirer share-based payment awards exchanged for awards held by the acquiree's employees (application of paragraph 52(b))**

B56 An acquirer may exchange its share-based payment awards<sup>23</sup> (replacement awards) for awards held by employees of the acquiree. Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with Ind AS 102, *Share-based Payment*. If the acquirer replaces the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. Paragraphs B57-B62 provide guidance on how to allocate the market-based measure.

However, in situations in which acquiree awards would expire as a

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<sup>23</sup> In paragraphs B56-B62 the term 'share-based payment awards' refers to vested or unvested share-based payment transactions.

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consequence of a business combination and if the acquirer replaces those awards when it is not obliged to do so, all of the market-based measure of the replacement awards shall be recognised as remuneration cost in the post-combination financial statements in accordance with Ind AS 102. That is to say, none of the market-based measure of those awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this guidance, the acquirer is obliged to replace the acquiree's awards if replacement is required by:

- (a) the terms of the acquisition agreement;
- (b) the terms of the acquiree's awards; or
- (c) applicable laws or regulations.

- B57 To determine the portion of a replacement award that is part of the consideration transferred for the acquiree and the portion that is remuneration for post-combination service, the acquirer shall measure both the replacement awards granted by the acquirer and the acquiree awards as of the acquisition date in accordance with Ind AS 102. The portion of the market-based measure of the replacement award that is part of the consideration transferred in exchange for the acquiree equals the portion of the acquiree award that is attributable to pre-combination service.
- B58 The portion of the replacement award attributable to pre-combination service is the market-based measure of the acquiree award multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The vesting period is the period during which all the specified vesting conditions are to be satisfied. Vesting conditions are defined in Ind AS 102.
- B59 The portion of a non-vested replacement award attributable to post-combination service, and therefore recognised as remuneration cost in the post-combination financial statements, equals the total market-based measure of the replacement award less the amount attributed to pre-combination service. Therefore, the acquirer attributes any excess of the market-based measure of the replacement award over the market-based measure of the acquiree

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award to post-combination service and recognises that excess as remuneration cost in the post-combination financial statements. The acquirer shall attribute a portion of a replacement award to post-combination service if it requires post-combination service, regardless of whether employees had rendered all of the service required for their acquiree awards to vest before the acquisition date.

- B60 The portion of a non-vested replacement award attributable to pre-combination service, as well as the portion attributable to post-combination service, shall reflect the best available estimate of the number of replacement awards expected to vest. For example, if the market-based measure of the portion of a replacement award attributed to pre-combination service is Rs 100 and the acquirer expects that only 95 per cent of the award will vest, the amount included in consideration transferred in the business combination is Rs 95. Changes in the estimated number of replacement awards expected to vest are reflected in remuneration cost for the periods in which the changes or forfeitures occur not as adjustments to the consideration transferred in the business combination. Similarly, the effects of other events, such as modifications or the ultimate outcome of awards with performance conditions, that occur after the acquisition date are accounted for in accordance with Ind AS 102 in determining remuneration cost for the period in which an event occurs.
- B61 The same requirements for determining the portions of a replacement award attributable to pre-combination and post-combination service apply regardless of whether a replacement award is classified as a liability or as an equity instrument in accordance with the provisions of Ind AS 102. All changes in the market-based measure of awards classified as liabilities after the acquisition date and the related income tax effects are recognised in the acquirer's post-combination financial statements in the period(s) in which the changes occur.
- B62 The income tax effects of replacement awards of share-based payments shall be recognised in accordance with the provisions of Ind AS 12, *Income Taxes*.

### **Equity-settled share-based payment transactions of the acquiree**

- B62A The acquiree may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquiree share-based payment transactions are part of the non-controlling interest in the acquiree and are measured at their market-based measure. If unvested, they are measured at their market-based measure as if the acquisition date were the grant date in accordance with paragraphs 19 and 30.
- B62B The market-based measure of unvested share-based payment transactions is allocated to the non-controlling interest on the basis of the ratio of the portion of the vesting period completed to the greater of the total vesting period and the original vesting period of the share-based payment transaction. The balance is allocated to post-combination service.

### **Other Ind ASs that provide guidance on subsequent measurement and accounting (application of paragraph 54)**

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- B63 Examples of other Ind ASs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:
- (a) Ind AS 38 prescribes the accounting for identifiable intangible assets acquired in a business combination. The acquirer measures goodwill at the amount recognised at the acquisition date less any accumulated impairment losses. Ind AS 36, *Impairment of Assets*, prescribes the accounting for impairment losses.
  - (b) Ind AS 104, *Insurance Contracts*, provides guidance on the subsequent accounting for an insurance contract acquired in a business combination.
  - (c) Ind AS 12 prescribes the subsequent accounting for deferred tax assets (including unrecognised deferred tax assets) and liabilities acquired in a business combination.

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- (d) Ind AS 102 provides guidance on subsequent measurement and accounting for the portion of replacement share-based payment awards issued by an acquirer that is attributable to employees' future services.
- (e) Ind AS 110 provides guidance on accounting for changes in a parent's ownership interest in a subsidiary after control is obtained.

**Disclosures (application of paragraphs 59 and 61)**

- B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:
- (a) the name and a description of the acquiree.
  - (b) the acquisition date.
  - (c) the percentage of voting equity interests acquired.
  - (d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.
  - (e) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.
  - (f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
    - (i) cash;
    - (ii) other tangible or intangible assets, including a business or subsidiary of the acquirer;
    - (iii) liabilities incurred, for example, a liability for contingent consideration; and
    - (iv) equity interests of the acquirer, including the number of instruments or interests issued or issuable and the

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method of measuring the fair value of those instruments or interests.

- (g) for contingent consideration arrangements and indemnification assets:
  - (i) the amount recognised as of the acquisition date;
  - (ii) a description of the arrangement and the basis for determining the amount of the payment; and
  - (iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.
- (h) for acquired receivables:
  - (i) the fair value of the receivables;
  - (ii) the gross contractual amounts receivable; and
  - (iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected.

The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.
- (i) the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.
- (j) for each contingent liability recognised in accordance with paragraph 23, the information required in paragraph 85 of Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose:
  - (i) the information required by paragraph 86 of Ind AS 37; and
  - (ii) the reasons why the liability cannot be measured reliably.
- (k) the total amount of goodwill that is expected to be deductible

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for tax purposes.

- (l) for transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination in accordance with paragraph 51:
  - (i) a description of each transaction;
  - (ii) how the acquirer accounted for each transaction;
  - (iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and
  - (iv) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.
- (m) the disclosure of separately recognised transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of profit and loss in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed.
- (n) in a bargain purchase (see paragraphs 34–36A):
  - (i) the amount of any gain recognised in other comprehensive income in accordance with paragraph 34;
  - (ii) the amount of any gain directly recognised in equity in accordance with paragraph 36A; and
  - (iii) a description of the reasons why the transaction resulted in a gain in case of (i) above.
- (o) for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:
  - (i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and
  - (ii) for each non-controlling interest in an acquiree

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measured at fair value, the valuation technique(s) and significant inputs used to measure that value.

- (p) in a business combination achieved in stages:
  - (i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and
  - (ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42) and the line item in the statement of profit and loss in which that gain or loss is recognised.
- (q) the following information:
  - (i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of profit and loss for the reporting period; and
  - (ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Ind AS uses the term 'impracticable' with the same meaning as in Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

- B65 For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph B64(e)–(q).
- B66 If the acquisition date of a business combination is after the end of the reporting period but before the financial statements are approved for issue, the acquirer shall disclose the information required by paragraph B64 unless the initial accounting for the

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business combination is incomplete at the time the financial statements are approved for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

- B67 To meet the objective in paragraph 61, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:
- (a) if the initial accounting for a business combination is incomplete (see paragraph 45) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the business combination thus have been determined only provisionally:
    - (i) the reasons why the initial accounting for the business combination is incomplete;
    - (ii) the assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and
    - (iii) the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 49.
  - (b) for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
    - (i) any changes in the recognised amounts, including any differences arising upon settlement;
    - (ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
    - (iii) the valuation techniques and key model inputs used to measure contingent consideration.
  - (c) for contingent liabilities recognised in a business combination, the acquirer shall disclose the information required by

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paragraphs 84 and 85 of Ind AS 37 for each class of provision.

- (d) a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:
  - (i) the gross amount and accumulated impairment losses at the beginning of the reporting period.
  - (ii) additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.
  - (iii) adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph 67.
  - (iv) goodwill included in a disposal group classified as held for sale in accordance with Ind AS 105 and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale.
  - (v) impairment losses recognised during the reporting period in accordance with Ind AS 36. (Ind AS 36 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)
  - (vi) net exchange rate differences arising during the reporting period in accordance with Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*.
  - (vii) any other changes in the carrying amount during the reporting period.
  - (viii) the gross amount and accumulated impairment losses at the end of the reporting period.
- (e) the amount and an explanation of any gain or loss recognised in the current reporting period that both:
  - (i) relates to the identifiable assets acquired or liabilities

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assumed in a business combination that was effected in the current or previous reporting period; and

- (ii) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

## Appendix C

### Business combinations of entities under common control

*This appendix is an integral part of the Ind AS.*

#### Scope

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- 1 This appendix deals with accounting for business combinations of entities or businesses under common control.

#### Definitions

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- 2 The following terms are used in this Appendix with the meaning specified:

*Transferor* means an entity or business which is combined into another entity as a result of a business combination.

*Transferee* means an entity in which the transferor entity is combined.

*Reserve* means the portion of earnings, receipts or other surplus of an entity (whether capital or revenue) appropriated by the management for a general or a specific purpose other than provision for depreciation.

*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 business combinations

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- 3 Common control business combinations will include transactions, such as transfer of subsidiaries or businesses, between entities within a group.
- 4 The extent of non-controlling interests in each of the combining entities before and after the business combination is not relevant to determining whether the combination involves entities under

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common control. This is because a partially-owned subsidiary is nevertheless under the control of the parent entity.

- 5 The fact that one of the combining entities is a subsidiary that has been excluded from the consolidated financial statements of the group in accordance with Ind AS 27 is not relevant to determining whether a combination involves entities under common control.
- 6 An entity can be controlled by an individual, or by a group of individuals acting together under a contractual arrangement, and that individual or group of individuals may not be subject to the financial reporting requirements of Ind ASs. Therefore, it is not necessary for combining entities to be included as part of the same consolidated financial statements for a business combination to be regarded as one having entities under common control.
- 7 A group of individuals are regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities, and that ultimate collective power is not transitory.

## **Method of accounting for common control business combinations**

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- 8 Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interests method.
- 9 The pooling of interest method is considered to involve the following:
  - (i) The assets and liabilities of the combining entities are reflected at their carrying amounts.
  - (ii) No adjustments are made to reflect fair values, or recognise any new assets or liabilities. The only adjustments that are made are to harmonise accounting policies.
  - (iii) The financial information in the financial statements in respect 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. However, if business combination

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had occurred after that date, the prior period information shall be restated only from that date.

- 10 The consideration for the business combination may consist of securities, cash or other assets. Securities shall be recorded at nominal value. In determining the value of the consideration, assets other than cash shall be considered at their fair values.
- 11 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.
- 12 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. Thus, for example, the General Reserve of the transferor entity becomes the General Reserve of the transferee, the Capital Reserve of the transferor becomes the Capital Reserve of the transferee and the Revaluation Reserve of the transferor becomes the Revaluation Reserve of the transferee. As a result of preserving the identity, reserves which are available for distribution as dividend before the business combination would also be available for distribution as dividend after the business combination. The difference, if any, between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to capital reserve and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes.

## **Disclosure**

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- 13 The following disclosures shall be made in the first financial statements following the business combination:
  - (a) names and general nature of business of the combining entities;
  - (b) the date on which the transferor obtains control of the transferee;
  - (c) description and number of shares issued, together with the

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percentage of each entity's equity shares exchanged to effect the business combination; and

- (d) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

**Business combination after the balance sheet date**

- 14 When a business combination is effected after the balance sheet but before the approval of the financial statements for issue by either party to the business combination, disclosure is made in accordance with Ind AS 10 *Events after the Reporting Period*, but the business combination is not incorporated in the financial statements. In certain circumstances, the business combination may also provide additional information affecting the financial statements themselves, for instance, by allowing the going concern assumption to be maintained.

## **Appendix D**

### **References to matters contained in other Indian Accounting Standards**

*This Appendix is an integral part of the Ind AS.*

This appendix lists the appendices which are part of other Indian Accounting Standards and makes reference to Ind AS 103, *Business Combinations*.

1. Appendix A, *Distributions of Non-cash Assets to Owners*, contained in Ind AS 10, *Events After the Reporting Period*

## Appendix 1

*Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 103 and the corresponding International Financial Reporting Standard (IFRS) 3, Business Combinations, issued by the International Accounting Standards Board.*

### Comparison with IFRS 3, *Business Combinations*

- 1 IFRS 3 excludes from its scope business combinations of entities under common control. Ind AS 103 (Appendix C) gives the guidance in this regard. Consequently, paragraph 2 has been modified and paragraph 2B has been added in Ind AS 103. Further, paragraphs B1-B4 of IFRS 3 have been deleted in Ind AS 103. In order to maintain consistency with paragraph numbers of IFRS 3, the paragraph numbers are retained in Ind AS 103.
- 2 The transitional provisions given in IFRS 3 have not been given in Ind AS 103, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, will deal with the same.
- 3 IFRS 3 requires bargain purchase gain arising on business combination to be recognised in profit or loss. Ind AS 103 requires the same to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve. This has some consequential changes such as change in wording of paragraphs 34, 36 and 48, additional disclosure in paragraph B64(n) and addition of new paragraph 36A. Cross-reference to the new paragraph 36A has been added in paragraphs B46, B64(n).
- 4 Different terminology is used, as used in existing laws eg, the term 'balance sheet' is used instead of 'Statement of financial position', 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'. The words 'approved the financial

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statements for issue' have been used instead of 'authorised the financial statements for issue' in the context of financial statements considered for the purpose of events after the reporting period.

- 5      <sup>24</sup>Paragraphs 64-64J and 64L of IFRS 3 related to effective date have not been included in Ind AS 103 as these are not relevant in Indian context. Paragraph 64N has not been included since it refers to amendments due to issuance of IFRS 17, *Insurance Contracts*, for which corresponding Ind AS is under formulation. However, in order to maintain consistency with paragraph numbers of IFRS 3, these paragraph numbers are retained in Ind AS 103.
- 6      <sup>25</sup>The following paragraph numbers appear as 'Deleted' in IFRS 3. In order to maintain consistency with paragraph numbers of IFRS 3, the paragraph numbers is retained in Ind AS 103:
- (a) Paragraph B10
  - (b) Paragraphs B28- B30
  - (c) Paragraph B32(a)

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<sup>24</sup> Inserted vide Notification No. G.S.R. 310(E) dated 28<sup>th</sup> March, 2018 and thereafter, substituted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019 and G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.

<sup>25</sup> Substituted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019 and, thereafter, substituted vide Notification No. G.S.R. 463(E) dated 24<sup>th</sup> July, 2020.