B.Com. Hons. Semester-IV
CC-8 Accounting Standard [BCOMHACCC401]

Unit 5: Business Combinations (Ind AS 103)

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What is Business Combination?
A business combination is a transaction in which the acquirer obtains control of another business (the acquiree). Business combinations are a common way for companies to grow in size, rather than growing through organic (internal) activities. A business typically has inputs, processes, and outputs.
Ind AS 103 provides that 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.

Objectives
The objective of this Indian Accounting Standard 103 (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 ; 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
This Indian Accounting Standard(103) applies to a transaction or other event that meets the definition of a business combination. This Indian Accounting Standard does not apply to:
(a) the formation of a joint venture.
(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) Appendix C deals with accounting for combination of entities or businesses under common control.

Identifying a business combination

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

The Ind AS 103 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).

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

Definition of Business

A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business.

The three elements of a business are defined as follows:

Input: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include noncurrent 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.

Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

Examples include strategic management processes, operational processes and resource management processes.

Output: The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

What is De facto Control?

- Under this model, the power to govern through majority of voting rights, or other legal means does not exist,
- But ability in practise to control i.e by majority of votes actually cast
- Thus it can lead to consolidation by minority shareholder

Acquisition Method

Business combinations are accounted for using the acquisition method which requires:

(a) identifying the acquirer (the acquirer is the entity that obtains control of another entity);

(b) determining the acquisition date (the date on which the acquirer obtains control);

(c) recognise and measure the identifiable assets acquired and the liabilities assumed and any non-controlling interest; and

(d) recognise and measure any goodwill or bargain purchase.

For each business combination, one of the combining entities shall be identified as the **acquirer**. The acquirer shall identify the **acquisition date**, which is the date on which it obtains control of the acquiree.

Recognition and Measurement Principle

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.
To qualify for recognition, the identifiable assets acquired and liabilities assumed by the acquirer must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standard at the acquisition date.
The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

Recognising particular assets acquired and liabilities assumed

Operating leases- The acquirer shall recognise no assets or liabilities related to an operating lease in which the acquiree is the lessee.
The acquirer shall recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms.
Intangible assets- 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.
Reacquired rights- 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. A reacquired right is an identifiable intangible asset that the acquirer recognises separately from goodwill.

Assembled workforce and other items that are not identifiable
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.

Exceptions to the Recognition Principles
(a) Contingent Liabilities
(b) Exceptions to the Recognition and Measurement Principles

- Income taxes
- Employee benefits
- Indemnification assets

(c) Exceptions to the Measurement Principles

- Reacquired rights
- Share-based payment transactions
- Assets held for sale

Recognition and measurement of Goodwill or Bargain Purchase
Goodwill is measured as the difference between the consideration transferred in exchange for the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.
Bargain purchase: In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination, where the value of acquired identifiable assets and liabilities exceeds the consideration transferred; the acquirer shall recognise a gain (bargain purchase). The gain shall be recognised by the acquirer in Other Comprehensive Income on the acquisition date and accumulate the same in equity as capital reserve, if there exists a clear evidence of the underlying reasons for classifying the business combination as a bargain purchase.
Reverse Acquisitions: A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting. 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.
Consideration transferred: The consideration transferred in a business combination shall be measured
at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.
Contingent consideration: The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

Measurement Period
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 recognized and additional assets and liabilities that existed at the acquisition date to reflect new information obtained.
The measurement period ends as soon as the acquirer receives the information it was seeking or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

Subsequent measurement and accounting
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 AS for those items, depending on their nature. However, Ind AS 103 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.

Disclosures
The acquirer shall disclose information of a business combination that occurs either:

- during the current reporting period; or
- after the end of the reporting period but before the financial statements are approved for issue.

The acquirer shall disclose information for each business combination that occurs during the reporting period such as:

- the name and a description of the acquiree.
- the acquisition date.
- the percentage of voting equity interests acquired.
- the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.
- a qualitative description of the factors that make up the goodwill recognised.
- the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration.
- and other disclosures as prescribed in the standard.

What is the difference between corporate combinations and mergers and Acquisitions?
A ‘corporate combination’ is a rarely used term in the M&A industry that refers to a ‘Merger’, whereby two companies merge to form a new entity. So…
Corporate Combination = Merger …. or …. Entity A + Entity B = Entity C
Acquisition …. or …..Entity A + Entity B = Entity A
The LEGAL Difference - The difference between a merger and an acquisition is primarily a legal one.

- A merger is where two companies merge to form a new entity (A + B = C).

- An acquisition is where ‘Entity A’ acquires ‘Entity B’, and folds it into ‘Entity A’ post-closing. ‘Entity B’ would typically cease to exist post-closing, or would exist as a division or child of the parent company (‘Entity A’).

The REAL WORLD Difference:

- A merger (combination) is where two equal companies merger to form a new company. For example, AOL & Time Warner merge to form AOL-Time-Warner.
- An acquisition is where a larger company ‘acquires’ a smaller company. For example, where Apple acquires Beats.

Weblography:

http://www.mca.gov.in/Ministry/pdf/IndAS103_2019.pdf

http://www.accountingnotes.net/accounting-standards/

https://www.toppr.com/guides/principles-and-practice-of-accounting/accounting-standards/

http://www.yourarticlelibrary.com/accounting/accounting-standards/

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