Application of Ind AS

Time line	History
1970	Europe nations got together and form Eurozone Common Currency € (Euro) Goal of Common financial Reporting International Accounting Standards Committee (IASC) formed IASC starts issuing IAS 1, 2, 3 .... Initially Recommendatory
1981	Accounting Standard Board (ASB) formed by ICAI. It starts issuing Accounting Standards. Initially Recommendatory.
1983	International organisation of Securities Commissions formed. (Like SEBI worldwide). India is member of IOSCO. IOSCO requires mandatory Reporting of financial statements based on accounting standards.
2000	International Accounting Standards Board (IASB) formed (after Restructuring of IASC). It starts issuing IFRS. It adopts IAS also. New series of IFRS starts. IAS + IFRS are both under control of IASB.
2006	India commits itself in G20 Summit for applying IFRS by Convergence Strategy. It means as it is but few minor changes to suit economic environment. MCA notified Companies (Accounting Standard) Rule 2006 for company. Now India has mandatory AS-1, AS-2 ....
2015	MCA notifies Company (Indian Accounting Standard) Rules, 2015. Now these called Ind AS. Applied to few companies and its auditors.

② Features of IndAS / IFRS

- Principle based standards (NOT Rule based)
  Means involve lot of subjectivity and judgement

- Intence application of substance over form
  i.e Equity can be classified as liability if it qualifies.

- Use of fair value has increased a lot

- Disclosures made more elaborate

③ Convergence Strategy

a) Not exactly same (∵ we did not apply adoption strategy)

b) Few significant changes exist (called Carve In / Carve out)
   - Around 6 differences exist for ICAI Exams.

c) Many insignificant differences Exist
   - Changes in terms (Statement of financial position Balance sheet
   - Removal of multiple options/alternatives existing in IFRS
   - Changes in 1st time application as per Indian environment.

4. Application of Ind AS

A) It can be voluntary but make sure
- Follow Consistently
- Cannot revoke i.e. can't come back to AS
- Once Applied, no need to follow AS

B) It can be mandatory. Ind AS applies to

- Companies which are listed / Process of listing (any Exchange, any security)

  NBFC are covered but Banks and Insurance Companies not.

- Unlisted companies whose Net worth ≥ 250 cr on 31/3 of previous Yr.

Net worth = Equity Share capital
+ Pref share capital (if it is Equity)
+ Free Reserves less Losses
+ capital Reserve arising from Grant for Promoters Contribution
+ Security Premium + ESOP Reserves

Networth

* Do not consider other Reserve like Revaluation Reserve or other specific Reserves.

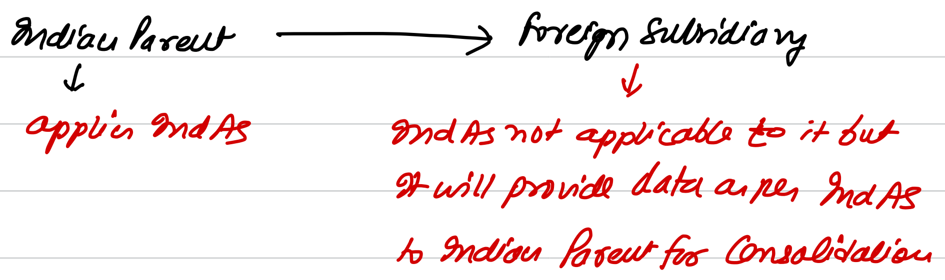
(C) Real Estate Investment Trust and Infrastructure Trust notified by SEBI

(D) Central Govt has power to notify Ind AS to any entity or class.

Note: In case company apply Ind AS, full family i.e. Holding, subsidiary, Associate and J.V should also apply Ind AS.

⑤ Special cases

a) overseas subsidiary of Indian Parent



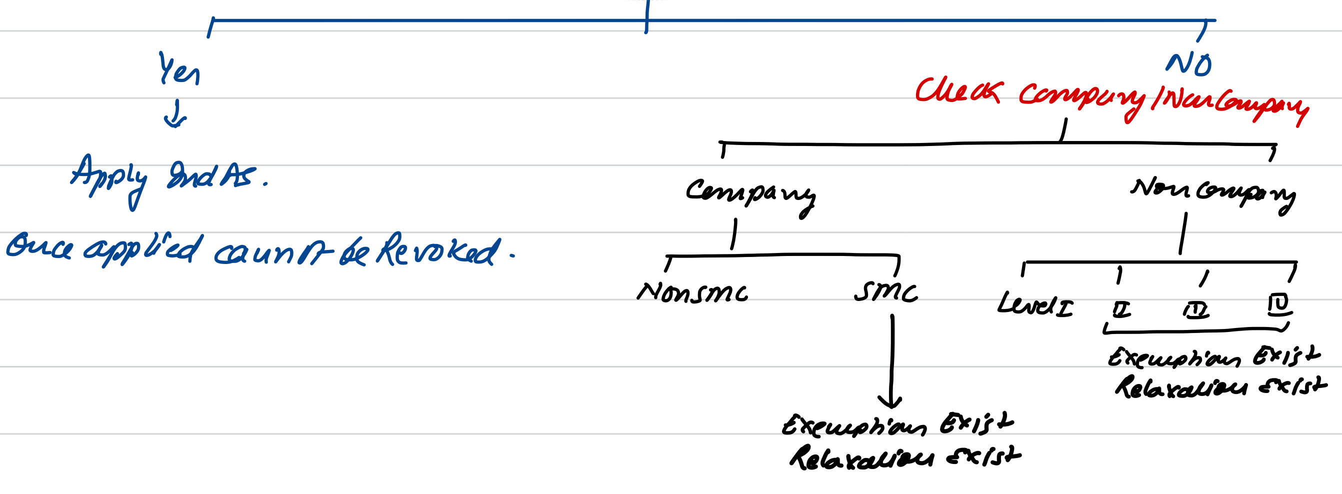
b) overseas Parent has Indian Subsidiary

⑥ Identification chart

Step 1 check Bank/Insurance company → Yes → Apply AS.
No Exemption
or
Relaxation
(AS-1 to 29)

↓
NO
↓

Step 2 check on 31/3 of last year
(Listed Company/Process of listing, Unlisted NW ≥ 250 Cr
REIT, ITrust, HSAJ)



Applicability of Standards

(NOT Relevant FOR EXAM)

Applicability of Ind AS

Ind AS is applicable on following Companies.

(i) Companies which are listed or in process of listing in India or outside India for any share, Bond etc.

Example
- Reliance is listed in India, o/s India
- PayTm is in Process of listing o/s India
- Listing can be for Eq share, Pref Share, Debenture, Bond etc.

OR

(ii) Networth of Company ≥ 250 Cr.
Net worth mean Shareholder Fund

Application of A.S

Remaining Companies on which Ind AS are not applied

Non SMC (Non Small and Medium Company)	SMC (Small & Medium Company)
It will apply ALL AS. ie AS-1 to 29 except AS-6 and 8. No Relaxation or Exemption	It applies all AS but has option to avail Exemption from application of following Standards: Full Exemption 3,17,20; Partial Exemption 15; Disclosure Exemption 19,28,29
No Exemption/Relaxation.	Exemption is also available from AS 21,23,27 and 25 if Company is not Preparing Consolidated & Interim Statement.
Following are Non SMC - Banking Companies (Axis Bank Ltd) - Insurance Companies (LIC) - Certain Financial (NSIC) Institutions - Companies whose Turnover > 250 Cr in immediately Previous year. - Companies whose Borrowing > 50 Cr at any time in Previous year.	Balance Residual Companies like Aldine Ventures (P) Ltd

Non Corporate Entities (Partnership firm, LLP, Society, Trust etc)

Level I	Level II	Level III	Level IV
It will apply all A.S 1 to 29 except AS 6 & 8. No Exemption or Relaxation	Option for Exemption Relaxation: Full Exemption: 3,17,20; Partial Exemp: 15; Disclosure: 19,28,29	Optional: Full Exemption = 3,17,20,18,24; Partial Exemp = 15; Disclosure = 19,28,29,10,11	Optional: Full Exemption 3,17,20,18,24,28; Partial 15,22; Disclosure 19,29,10,11,13,21
No Exemption or Relaxation	Exemption is also available from AS 21,23,27 & 25 if entity is not preparing Consolidated & Interim Statement.	→ Same	→ Same + AS-14
Level I Entities • Banks (Rajkot District Bank) • Listed or Process of listing Entities (Mutual Fund)	-	-	-
• Entities whose Turnover > 250 Cr in Previous year	Entities whose Turnover > 50 Cr upto 250 Cr in P. year	Entities whose Turnover > 10 Cr upto 50 Cr in P. year	Balance Entities
• Entity whose Borrowing > 50 Cr at any time in Previous year.	Entities whose Borrowings > 10 Cr upto 50 Cr at any time in P.Y	Entities whose Borrowing > 2 Cr upto 10 Cr at any time in P.Y	

ALDINE CA Always A Step Ahead

① Schedule 3 provides format of financial statements for companies (except Banking and Insurance companies). following statements are prepared in D-2

a) Balance Sheet (BS)

b) Statement of profit & loss (SPL)

c) Statement of changes in Equity (SOCE)

d) Notes to Accounts

② Format of Balance sheet

Name of Company ------- Balance sheet as at ------ ₹ in ------

Particulars	Note	C.Y	P.Y
Assets			
Non Current Assets			
Property Plant and Equipment			
Capital work in progress			
Investment Property			
Goodwill			
Other Intangible Assets			
Intangible Assets under Development			
Biological Assets except bearer Plants			
Financial Assets			
Investments			
Trade Receivables			
Loan			
Other financial Assets			
Deferred Tax Asset (net)			
Other non current Assets			
Current Assets			
Inventories			

Financial Assets

Investments

Trade Receivable

Cash and Cash Equivalent

Bank Balance other than cash & cash Equivalent

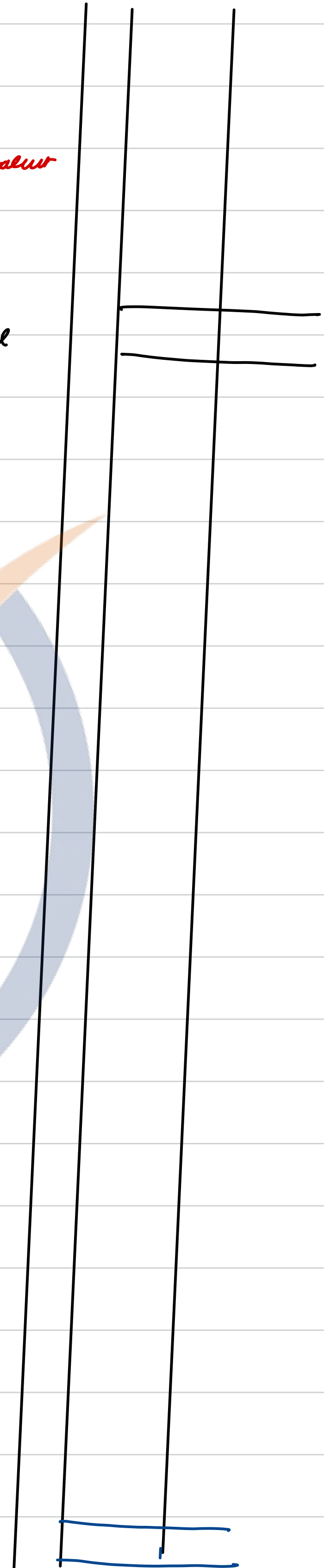
Loans

Others

Current Tax Assets

other current Assets

Total



Equity and Liabilities

Equity

Equity share capital

other Equity

Non Controlling Interest

Liabilities

Non current Liabilities

Financial Liabilities

Borrowings

Lease liabilities

Trade Payable (towards MSME and others)

other financial liabilities

Provisions

Deferred Tax Liabilities (Net)

other non current liabilities

Current liabilities

Financial liabilities

Borrowings

Lease liabilities

Trade Payable (towards MSME and others)

Other financial liabilities

other current Liabilities

Provision

Current Tax liabilities

Total

③ Statement of changes in Equity

(A) Equity share capital (for C.Y and P.Y)

O Balance	Prior Period Errors	Restated Balance	changes	closing Balance

(B) Other Equity

	Share Application money	Equity of CFI	R/S			OCI				Share Warrant	NCI	Total
			C/R	S/P	Retained Earnings	Debt through OCI	Equity through OCI	Reval. Reserve	others			
O Balance												
± changes in Policy or P.P. Errors												
Restated Balance												
+ Total Comprehensive Income												
- Dividends												
± Transfers and other changes												
Closing Balance												

Name of company ------

(4) Statement of Profit + Loss for --------- ₹----

Particulars	Note	C.Y	P.Y
Income			
Revenue from operations			
Other Income			
Total			
Expenses			
Cost of material Consumed			
Purchases of SIT			
Changes in Inventory			
Employee Benefit Expense			
Finance Costs			
Depreciation and Amortisation			
Other Expences			
Total			
Profit Before Exceptional items and tax			
± Exceptional Items			
Profit/Loss Before Tax			
− Tax Expence			
Current Tax			
± Deferred Tax			
Profit from Continuing operations		xxx	xxx
+ Profit from discontinued operations		xxx	xxx
− Tax on " "		xxx	xxx
Profit after Tax on " "		xxx	xxx
		xxx	xxx
Profit/Loss for Period			
Other Comprehensive Income			
Items that will not be Reclassified/Recycled *			
Items that will be " " *			
Total Comprehensive Income		xxx	xxx
Disclosure for EPS Basic + Diluted		xxx	xxx

* Also Show Tax effect of OCI

5. Items of Other Comprehensive Income (OCI) *

(A) Items which will not be Reclassified to P&L

(i) Change in Revaluation Surplus

(ii) Equity Instruments through OCI

(iii) Remeasurement of Defined Benefit Plans

(iv) Share of OCI in Associates and J.V relating to non Reclassification to P/L

(v) Fair value changes for own credit risk of f. liabilities @FVTPL

(vi) others

(B) Items that will be Reclassified to P/L

(i) Exchange difference in translating financial statements of foreign operation.

(ii) Debt Instrument through OCI

(iii) Effective portion of gain/loss on Cash flow hedge

(iv) Share of OCI in Associates and J.V relating to Reclassification to P/L

(v) others

* Also show Tax effect of OCI

Note: only IASB has right to consider any item to be/not to be in OCI.

⑥ Regarding Statement of Profit/loss

(i) Revenue from operations include
- Sale of goods including Excise duty
- Sale of services
- Grants and donations for Section 8 Company's
- Other operating Revenues

(ii) Other Income include
- Interest Income
- dividend Income
- other non operating Income (net of Expenses)

(iii) Employee Benefit Expenses include
- Salary and wages
- Contribution to PF & staff welfare
- Share Based Payments Cost

(iv) Finance Costs include
- Interest
- Dividend on Redeemable Pref Shares
- E.D treated as Borrowing Cost etc

(v) Always disclose separately
- over Gain/loss on sale of Investments
- Exchange difference (other) disclosed in Other Expense.
- Payment to Auditor (detailed)
- Exceptional items (* see notes)
- CSR Expenses (detailed note)
- Details of Crypto/Virtual Currency
- undisclosed Income
- Any Income/Expense which exceeds higher of (1% of RFO or ₹ 10 Lakhs). Apply materiality Also.

* Exceptional Items : Item which is material in SIZE and NATURE.

Example : Retro Tax effects.

IndAS-1 given illustrative list (It is not followed practically)

[Decline in value of Inventory, Litigation settlement Exp, Gain/loss on PPE/Investment etc
DCO, Reversal of Provisions etc.]

Treatment of decline in inventory can be adjusted in stock or as separate item in P&L A/C as operating Expenses.

* Concept of Extraordinary Items not relevant now
" " PPI is now part of SOCE

⑦ Regarding Balance sheet and its disclosures

Item	Disclosures
PPE, Investment Property, Goodwill, Other Intangible Assets, Biological Assets	• Always prepare Reconciliation sheet show O.Balance, changes and Cl. Balance • If asset is on lease (ROU Asset/Asset on lease) disclose separately • Always disclose classification PPE: Land, Building, Plant & machine, Bearer Plants Other I Asset: Patent, Trademarks etc Biological Asset: Livestock, Plant other than Bearer Plants.
Capital WIP and Intangible under development	Details should be given of Projects
Financial Assets, Investments (Current/Non Current)	Check Intention to sell within 12m for Current/Non Current Always disclose Quoted/Unquoted " " classification: Equity, debt, MFund etc Name of Investee if Investee is Subsidiary, Associate, J.V Disclose Invt @ FVTPL or OCI or @ Amortised Cost
Trade Receivable ☞	Give Ageing Schedule • Good — Secured / Unsecured • Have Significant Risk • Credit Impaired * deduct Provision for Bad debt under each classification
Cash and Cash Equivalent	Cash in hand, Bank Balance (But not overdraft), Cheques in hand, Bank FD maturing within 3 months
Other Bank Balances	Bank FD maturing more than 3m - 12m

Ageing schedule (Trade Receivable):

less than 6m	6m-1Y	1-2Y	2-3Yr	3+Yr	Total

* Financial Asset is right to receive Cash under Contract

Loans Current/Non current	1. Give Ageing schedule 2. Give details if it is with Related Party.
Other financial Assets	Non Current: Security Deposits (LT) like Electricity deposit Earnest money, Bank FD more than 12m Debtor (LT) (Sale of machine) Current : Accrued Interest, Security Deposit (ST), Staff Advance or Insurance Receivable
Inventories	Show classification SIT, material, WIP etc
Deferred Tax Asset	Always show them as Non Current. (Set off DTL if made under same governing law), include MAT credit. Tax Base need to be calculated when diff. arise due to Depr or Preliminary Exp or other reason.
Current Tax Assets	Advance Tax, T.D.S etc
Other Non Current Assets	Tax paid in dispute, Capital Advance, Security Deposit Long term in nature (Non Cash Realisation)
Other Current Assets	Prepaid Expenses, Non Cash Settlement Staff Advance, Residual Asset Advance to Suppliers
Share Capital	Always disclose Authorised, Issued, Subscribed and Paid up Share Capital along with Calls unpaid, Share forfeiture Balance. Also disclose number and Par value of shares along with classes. • Give details of shareholding more than 5%. • " " " Promoters and its ownership
Other Equity	Post this item from SOCE. NCI can be shown as separate line item in Balance sheet

Financial Liabilities (Current and Non Current)	Always disclose: Secured / Unsecured along with principal terms of Borrowings. : Do not include lease liabilities here : Current maturities of LT Borrowings is shown as ST Borrowing
Lease liabilities	Need separate disclosure as per Ind AS-116
Trade Payable Current + Non Current	Give Ageing schedule T.Payable 0-1yr 1-2yr 2-3yr 3+yr Total MSME Others * Bills payable and Expense Payable are also Trade Payable.
Other financial liabilities	Noncurrent: Security deposit Received (LT) Current : " " " (ST), Accrued interest, Dividend Payable, unpaid matured deposits, Application money refundable
C Tax liabilities	Income Tax Provision, GST Payable
Other Non current liab	Capital Advance Received
Other current liabilities	Advance from customers for supplies, Govt statutory dues like licence fee
Provisions	LT : Provision for Retirement Benefits (Not all) ST : Provision for legal disputes

(8) Other disclosures

- Borrowings not utilised for specified purposes
- Benami Properties
- Ratios : Current Ratio, Liquidity Ratio, NP Ratio, ROCE, ROI, ROE, Inventory Turnover, Trade Receivable Turnover etc
- Default in submitting Reports to Banks
- Delay in filing Registration charges
- Non compliance of layers of Subsidiaries
- date of becoming wilful defaulter
- Relationship with struck off Companies

Note: spare Parts can be PPE if satisfies definition of PPE, otherwise it is Inventory.

* PAT and OCI shall be allocated to

  Non Controlling Interest xxx
  Owners xxx

* Contingent liabilities need separate disclosure
  - Claims against companies not acknowledged as debt like Tax disputes not expected to arise.
  - Proposed Dividend
  - Arrears of Pref. Dividend
  - Unexecuted Contracts having liabilities, IF ONEROUS.

* Order of Notes
  About Company
  Basis of Preparation; Accounting convention and assessment of going Concern
  Use of Estimates, Assumptions
  Accounting Policies
  Notes on disaggregation
  " " Segment Report, EPS, Related Parties, Arrangements
  Statutory disclosures (SEBI, Companies Act, Other Acts, Ind AS)
  LODR Donations CMSME

* Additional 3rd Balance sheet is required when Ac Policies applied Retrospectively
  - Restatement due to Errors
  - 1st time application of Ind AS

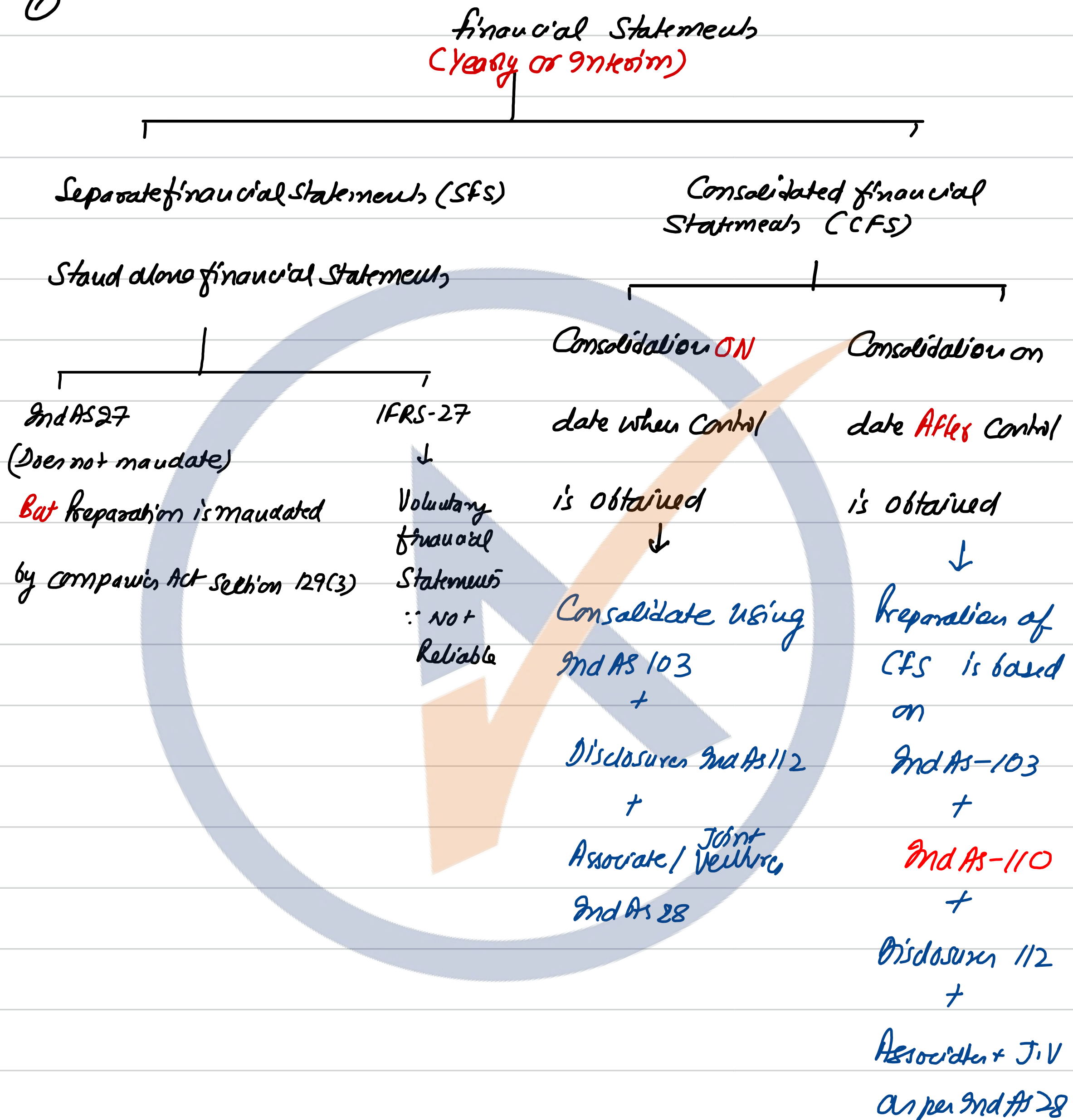
* order Supreme is law, then Ind As then Schedule III

* Liquidity order given in Ind AS-1 not to applied. If Intend give it in Notes.

* EPS disclosure for DCO Also

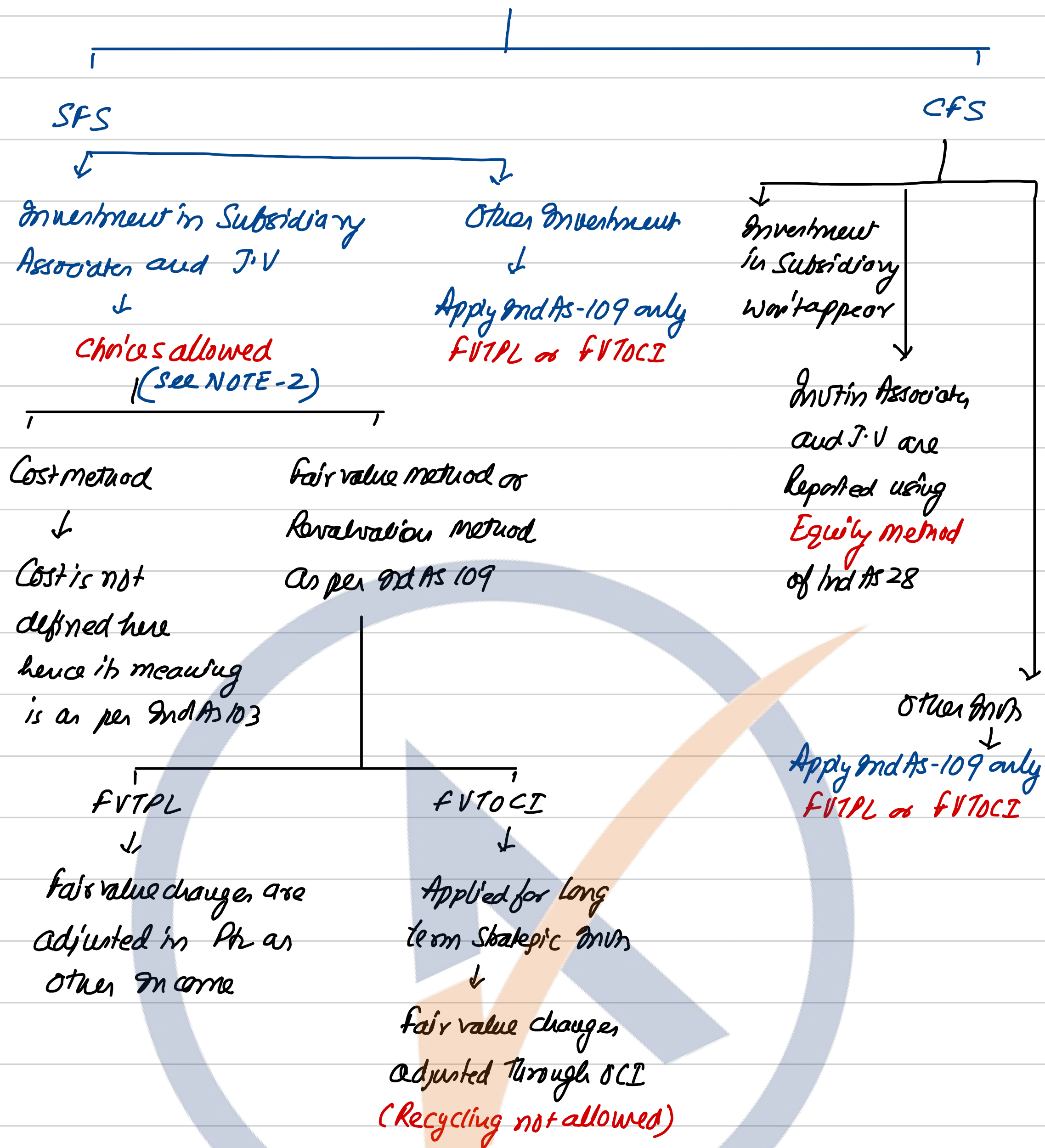
Consolidation of financial Statements & Business Combinations

①



Note: Consolidation is mandatory in India as per Companies Act 2013 Section 129(3). SEBI also mandates it for listed Companies. Ind AS-1 also requires consolidation.

(2) Accounting for equity Investments



Note 1: Whenever subsy, Associates or Joint ventures comes into existence, then Revaluation of past Investments in Equity for such entity is Mandatory. (Ind AS-27)

NOTE-2: Choice to apply cost method or fair value method of Ind AS 109 is for each class of Investments in Subsidiary, Associate or Joint venture.

* Such election cannot be Revoked later on.

* Choice Exists when accounting for such class for 1st time.

* Class of Investment is not defined .. Generally it is considered that
  - Subsidiary is one class
  - J.V " " "
  - Associate " " "

  But if purpose of holding them is different, even two subsidiaries can be treated as two classes.

* Revaluation is necessary even if class is changed by parent for any Investment.

Example A Ltd has purchased following Investments

Date	No of Shares	Company	Fair value on date
1.5.2021	30000	X Ltd	16
1.7.2021	10000	X Ltd	18
31.3.2022			20
1.8.2022	160000	X Ltd	23
31.3.2023			25
1.9.2023	60000	X Ltd	32
31.3.2024			35
31.7.2024	80000	Y Ltd	60
31.3.2025		X Ltd	38
		Y Ltd	62

A Ltd has policy for Accounting Investment in Associate @ FVTPL but Subsidiary @ Cost. Assume Number of shares of X Ltd 500000 and Y Ltd 100000

Prepare Investment A/c in SFS

③ For the purpose of Consolidation, SFs of Parent and Subsidiaries, Associates and J.V are required.

Following important calculations are made for consolidation

(i) Calculation of Goodwill / Gain on Bargain Purchase (GBP)
(ii) " " Non Controlling Interest (NCI).

We need to prepare Statement of Identifiable Net Assets (SINA) and Statement for Consolidated Equity.

④ How to Calculate Goodwill / GBP?
(Earlier in AS-21 we called it cost of control)

	Investment in Subsidiaries (ON Acquisition date)	xxx
+	Non Controlling Interest @ Proportionate Share in Net Assets or @ fair value (ON Acquisition date)	xxx
−	Identifiable Net Assets on Acquisition date	xxx
	Goodwill or GBP on Acquisition date	xxx

Note: Goodwill will be tested for any impairment loss in post Consolidation Period. Any impairment loss will be adjusted in P&L A/C.

NOTE : If we get GBP in above calculation, then

Step 1 : Review procedures and processes for calculation made regarding fair value calculation of NCI, fair value of Identifiable Net Assets and Cost of Investments.

Step 2 : If after Review, it is considered that values are reliable then transfer GBP to Other Comprehensive Income as Non Recycle Item. It will be added to Capital Reserve in SOCE.

If after review, it is considered that values are not reliable then transfer GBP to Capital Reserve directly in SOCE.

NOTE : CARVE OUT GBP is transferred to other Income in Statement of P/L as other Income as per IFRS-3. But in Ind AS we transfer it to Capital Reserve (directly or Indirectly through OCI)
We do not follow IFRS here because it is unrealised Income and it may get distributed to shareholders.

* Also note that Non controlling Interest (called Minority Interest by AS-21) can be Negative (As per AS-21, negative M.I was not allowed)

5. How to calculate Non Controlling Interest?
(Earlier called Minority Interest)

Two methods are allowed

a) NCI @ fair value or full Goodwill method

b) NCI @ Proportionate Share in Net Assets or Partial Goodwill Method

1st Preference is NCI @ fair value, But if it can't be calculated or not reliable, use PSNA

NCI @ FV = No of shares Not held by Parent × fair value per share (of subsidiary)

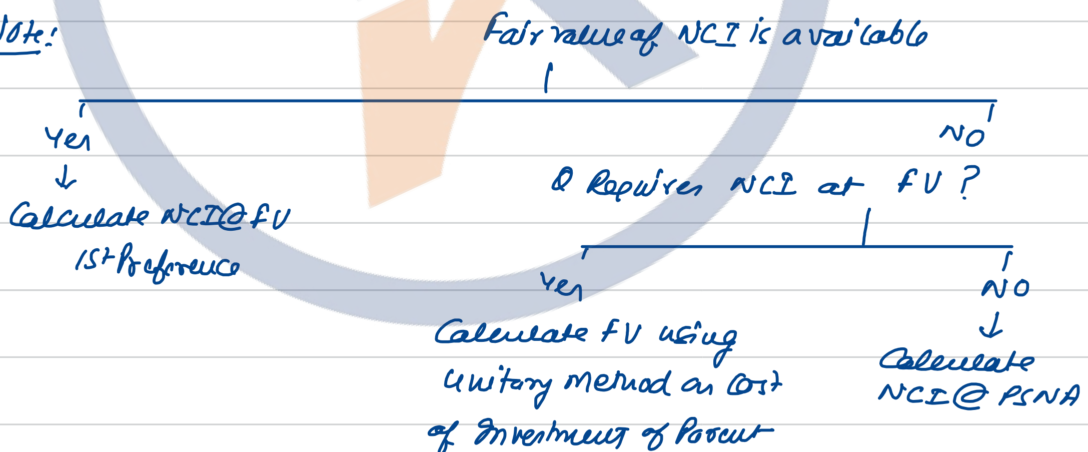
NCI @ PSNA = Identifiable Assets × % share of NCI

Note: NCI @ PSNA may become Negative due to Negative net Assets

Note: NCI on Consolidation date will be

NCI @ Fair value or PSNA on Aquisition date	XXX
+ Share of Post Aquisition Net Assets	XXX
NCI on date of consolidation.	XXX

Note:



Journal Entry

Investment in Subsidiary Dr
To Cash
To SCapital
To SPremium
To Deferred Consideration (FL - OFL - Compounding)
To Contingent " (NCL - ONCL / FV changes in PL)

Example

Balancesheet as on 3.3.2000	Pltd	Sltd
PPE	700000	300000
Investment in 80% Shares of Sltd	1200000	-
Current Assets	800000	700000
Share Capital (₹10 each)	1500000	500000
other Equity	500000	200000
Current Liabilities	700000	300000

Pltd had acquired shares on 31.3.00 when fair value of NCI is ₹ 25 per share

Prepare CB/S on 31.3.20

Example — Balance Sheets 31.3.23

	P Ltd	S Ltd
PPE	20,00,000	1200,000
Investment in Subsidiary S Ltd at Cost	15,00,000	-
Current Asset	500000	100000
	40,00,000	1300000
Share Capital (₹10 each)	30,00,000	10,00,000
Other Equity	700000	200000
Current Liability	300000	100000
	4000000	1300000

P Ltd had acquired shares of S Ltd on 31.3.23. Assume Non Controlling Interest @ Proportionate share in Net Assets or @ Fair value ₹300000

Prepare Consolidated Balance Sheet on 31.3.23.

Example

Balance sheet 31.3.23	P Ltd	S Ltd
PPE	500000	10,00,000
Investment in 60000 shares of S Ltd	1200000	-
Current Assets	700000	500000
Share Capital (₹10 each)	1500000	10,00,000
Other Equity	500000	100000
Current Liability	400000	400000

Fair value of share of S Ltd is ₹ 17 on 31.3.23. Shares were acquired by P Ltd on 31.3.23. Prepare Consolidated Balance sheet.

⑥ Cost of Investments for Subsidiary/Associate/Joint venture

Following are components of Cost

Cash Paid for acquisition of shares	XXX
+ Fair value of Exchange of shares	XXX
+ " " " any other Asset paid on Acquisition	XXX
+ Present value of Deferred Consideration	XXX
+ " " " Contingent "	XXX
+ Other Elements (discussed later)	XXX
Cost of Invt.	XXX

Note: Deferred Consideration is amount payable after 12 months, whose payment is certain. Use Parent Discount Rate.
Deferred consideration is compounded for period of discount.
It is recorded as financial liability.

Note: Contingent Consideration payable on occurance or non occurance of uncertain events. This should be taken at Fair value.
Any change in fair value of Contingent Consideration payable in Cash is adjusted through P&L A/C.
If contingent consideration is payable in Equity, then any change in fair value is adjusted in Equity. (Not P&L A/C)
It is recorded as other Non current / current liability.
It is not compounded.

Example Altd purchased 10000 shares of Bltd on 1/5/23. It agreed to pay ₹15 per share in cash. On 1/8/23 Altd further purchased 60000 shares of Bltd on following terms

- In cash ₹2 per share
- 2 shares of Altd for each 5 shares of Bltd. Fair value of share of Altd is ₹11 per share
- ₹50,000 after 3 years in cash. Discount Rate 10% for Altd
- ₹80000 in cash after 3 years, if EBIT of merged Entity is more than 180% of present EBIT of Altd.

Journalise for Altd in SFS. Fair value of share of Bltd is ₹18 on 1/8/23. Fair value of Contingent Consideration on 1/8/23 is ₹ 16000. Bltd had total 100000 Equity shares.

Example

A Ltd held 30000 Shares of B Ltd, which were purchased on 1.7.23 @ 16 each. A Ltd again purchased 40000 Shares of B Ltd on 1.10.23 and agreed to

- Pay in cash ₹ 5 per share
- exchange of Share, 3 Shares for 5 held. Fair Value of A Ltd Share ₹20
- Cash to be paid after 3 years ₹40000. Discount Rate A Ltd 10%.
- A Ltd will pay ₹50000 in cash if EPS of Combined Entity is more than Rs 3/- per share. Fair value of this consideration is ₹ 10000. Its fair value on 31.3.24 is ₹ 12000.

Fair value of B Ltd Share is ₹ 22 each on 1/10/23. Total No of B Shares 1 Lakh.

Prepare Extract of final A/c on 31.3.24 for SFS of A Ltd.

Example: Balance sheets as on 31.3.x0 of P Ltd and S Ltd are as follows

	P Ltd	S Ltd
Non current Assets		
PPE	800000	600000
Investment	900000	700000
Current Assets		
Inventory	400000	300000
Cash & Cash Equivalent	700000	300000
Equity share capital	10,00,000	800000
Other Equity	600000	300000
Borrowings	500000	200000
Trade Payable	700000	600000

(i) P Ltd held 10000 shares of S Ltd, purchased on 1/5/x0 @ 12 each whose fair value on Balance sheet date is ₹ 19 per share. P Ltd had Recorded Investment at Purchase Price.

(ii) On 31/3/x1, P Ltd purchased 50000 shares of S Ltd but its entry is yet to be passed in above Balance sheet.

Agreed Consideration : Rs 3/= per share in Cash
4 share of P Ltd for 5 share held. Fair value of P Ltd share is ₹13
₹50000 payable after 5 years
₹ 60000 " " 3 years if P Ltd makes Public Issue.
Fair value of this Consideration is ₹ 20000.

Prepare Consolidated Balance sheet on 31/3/x1 assuming discount Rate 10%.

⑦ Revaluation of Assets and liabilities

(i) Identifiable Assets and liabilities of subsidiary should be revalued on Date of Acquisition, so that correct Goodwill / GBP can be calculated.

* Identifiable means separable from Entity and can be sold
  Goodwill is not Identifiable asset. Hence it should be Eliminated.
  Preliminary Expenses, staff Training etc are not identifiable.

* Revaluation can be done if question provides fair values of assets / liabilities

* Deferred Tax Asset / Liabilities should be calculated on Revaluation Effects. [DTA / DTL is NOT calculated on Elimination / creation of Goodwill as per Ind AS-12]

* Ignore unrealised profit on Stock / PPE if Transaction of Sale / Purchase was Before Acquisition date.
  Acquisition date means date when parent obtains control.

(ii) Assets and liabilities of parent may be revalued if Question asks.
If question provides fair values of Assets / Liab. of Parent then it does NOT mean that revaluation is to be done.

⑧ On date of Consolidation at Acquisition date

- Consolidated PL will be same as PL of Parent
- " SOCE " " " SOCE of Parent ± Consolidation Effects.
- " CFS " " " CFS of Parent

Example Balance sheets as 31·3·X0 are as follows

	Pltd	Sltd
PPE	700000	400000
Goodwill	100000	50000
Invt in 80% Share of Sltd	1200000	–
Inventory	300000	200000
other C·Assets	400000	200000
Share Capital	10,00,000	4,00,000
other Equity	10,00,000	300000
Trade Payable	600000	1,00000
other Curr. Liab	100000	50000

Pltd had acquired shares as 31·3·00 · fair value were as follows

		Pltd	Sltd
PPE		800000	460000
Inventory	Cost	300000	200000
	NRV	350000	220000
	fair value	360000	230000
Trade Payable		600000	1,10,000

Tax Rate is 30%. fair value of share of Sltd as 31/3/00 is ₹28

Prepare CBIS

Note: Always prepare Balancesheet, then CPL, followed by Cashflow Statement

(i) Balancesheet - Check for Errors in Question + Rectify if any.
Journalise for Parent and Subsidiary.

- If Investment are at FV, Cancel Gain/loss due to change in PL or OCI of Parent.

(ii) Working Notes

FORMATS

Statement of Identifiable Net Assets (SINA) - FOR Subsidiary

	Date of Acquisition	Post	Total
Share capital	xxx	xxx	xxx
Other Equity Free	xxx	xxx	xxx
Non free	xxx	xxx	
Book value	xxx	xxx	
+ Dividend + DDT Elimination	-	xxx	
± Uneven Expenses/Income	-	xxx	
	xxx	xxx	
Time Adjustment	xxx	(xxx)	
	xxx	xxx	
± Uneven Item	xxx	xxx	Based on date of occurance
Elimination	xxx	[of Non Identifiable Asset]	
+ Revaluation	xxx	-	
Consequential Adj	-	xxx	
+ Revaluation of Stock	xxx	-	
Consequential Adj	-	xxx	
+ Trade Receivable/Payable	xxx	-	
Consequential Adj	-	xxx	
- Unrealised Profit on Stock/Asset		xxx	(Upstream)
D.T. Effects	(xxx)		
F.V of INA	xxx	xxx	
Allocation P	-	xxx	
NCI	-	xxx	

⑨ Calculation of Goodwill / GBP

Investment in Subsidiary after (Rectification / Removal of Revaluation)	xxx
+ NCI @ fair value or PSNA	xxx
- INA fair value	xxx
Goodwill / GBP	xxx
Less Cumulative G/W Impairment	xxx
Goodwill on Consolidation	xxx

G/W @ Full value: Parent + NCI Share
G/W @ Partial value (Parent)

Calculation of NCI

NCI @ FV or PSNA on date of Acquisition	xxx
+ Post Acquisition INA of NCI	xxx
- Goodwill Impairment (Full)	xxx
- DOT	xxx
	xxx

NCI @ FV = No of Share held by NCI × fair value of Subsidiary share on Date of Acq.

NCI @ PSNA = (No of Share held by NCI / Total share) × INA fair value

Calculation of Consolidated Equity

Parent Retained Earnings (DOC)	xxx
(-) Elimination of Revaluation effects of Invts	xxx
± Rectification of Errors	
+ Post Acquisition changes	xxx
- Goodwill Impairment (full or Partial)	xxx
- DOT	xxx
- U/P on Stock / Machine Downstream	xxx
+ Capital Reserve on Consolidation if any	xxx
	xxx

Consolidated Balancesheet

- Eliminate Contra Effects
- In Balancesheet Adjust Revaluation, Consequential Adj Deferred Tax, U/P, G/W and NCI

Consolidated Profit + Loss

- Combine Income + Expenses for Post Acquisition Period line by line
- Contra Sale/Purchase be cancelled
- Eliminate Dividend with Subd (without CDT)
- Adjust (i) Consequential Adjustment in PPE/Depreciation
  - (ii) " " of Stock (Cost of sale)
  - (iii) " " of Trade Pay/Receivable settlement
  - (iv) UIP upstream in change in stock
  - (v) G/W Impairment (full or Partial) in Depreciation
  - (vi) UIP Downstream in stock
  - (vii) D.Tax in Tax expense
- WN Allocation to NCI → SINA × NCI Share

or → CPL of Subd

Revenue	xxx
(-) Expense	xxx
(-) Tax	xxx
± Adjustment (i)(ii)(iii)(iv)	xxx
± Tax effect	xxx
G/W Impairment full	xxx
NCI Share	xxx

Example Balance sheets as 31·3·20X1 are as follows

	Pltd	Sltd
PPE	20,00,000	1500000
Goodwill	600000	200000
Investments	800000	300000
D. Tax Assets	300000	100000
Inventory	500000	400000
Cash and Cash Equivalent	300000	100000
Share Capital (₹10 each)	2500000	10,00,000
other Equity	1500000	500000
Loan	200000	800000
Trade Payable	300000	300000

Additional Information

1. Pltd had purchased 5000 share of Sltd on 1st May 00 @15 each. These were recorded in above Balancesheet at purchase Price.

2. Pltd purchased 70000 shares of Sltd on 31/3/01, whose entry is yet to be passed by Pltd
   - Cash Paid @ 2 per share
   - Share Exchange: 2 share of Pltd for 3 held @ 14 each
   - ₹90000 after 3 year. Discount Rate 7%.
   - ₹80000 after 3 year if specified condition satisfied. Fair value of this consideration ₹7000 on 31/3/01

3. Fair value of share of Sltd on 31·3·01 is ₹ 28 per share

4. Fair values on 31·3·01

	Pltd	Sltd
PPE	2200000	1700000
Trade Payable	as per Books	320000

5. Pltd had sold machine to Sltd @ 20% Profit. Book value of PPE of Sltd include unrealised Profit ₹5000.

6. Profit and loss Statement

	Pltd	Sltd
Sales	70,00,000	4000,000
Expenses	6500000	3800000
PAT	500000	700000

7. SOCE - Pltd

	G/R	PL	Total
O Balance	700000	300000	10,00,000
N. Profit		500000	500000
	700000	800000	1500000

8. SOCE - Sltd

	G/R	PL	Total
O Balance	200000	100000	300,000
N. Profit		200000	200000
	200000	300000	500000

9. Cash Flow Statement

	Pltd	Sltd
C Flow from operating Activities	400000	300000
" " " Investing "	200000	100000
" " " financing "	(350000)	(340000)
Total	250000	60000
+ op. cash + cash Equival.	50000	40000
	300000	100000

10. Tax Rate 30%.

Prepare Consolidated financial Statements.

Consolidation after Acquisition date

(10) How to prepare Consolidated Profit + Loss? (Parent with Subsidiary)

(i) Consolidation of P/L for subsidiary will begin from date of Acquisition to Date of Consolidation.

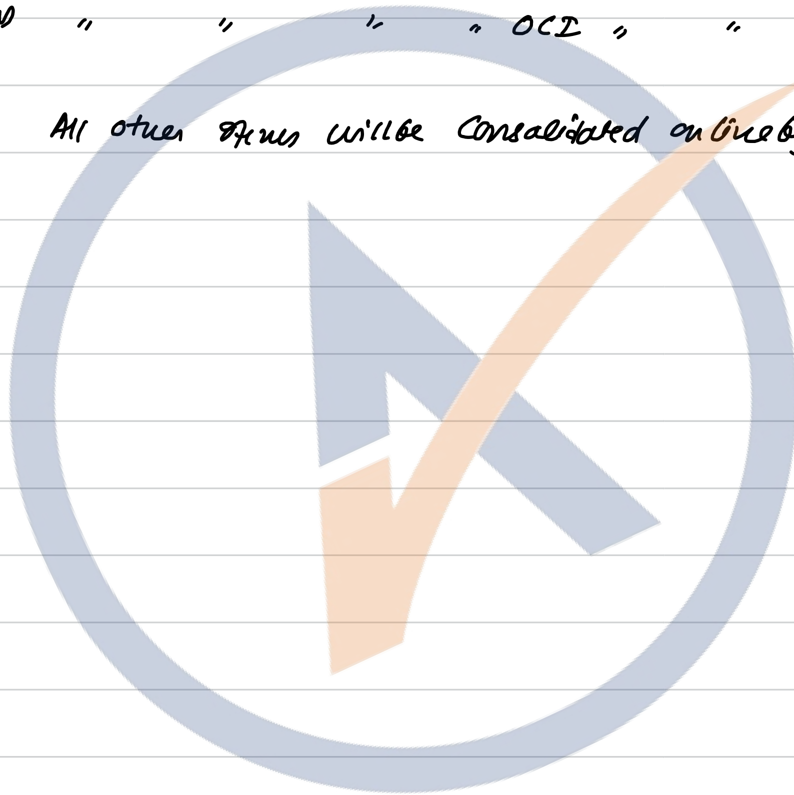
(ii) Intra items like
- Sale/Purchase within Group
- Income/Expense " "
- Dividend Income " "

will be Eliminated.

(iii) Always show Allocation of PAT to Parent & NCI

(iv) " " " " OCI " " "

All other items will be Consolidated on line by line basis.



(Negative NCI and various dates)

Example — Balance sheets as on 31·3·2000

	Pltd	Sltd
PPE	10,00,000	800000
Investment in 60% shares, Sltd	900000	-
Current Assets	500000	100000
Share Capital (Share of ₹10)	12,00,000	700000
Other Equity	600000	80000
Current Liabilities	600000	120000

Pltd had acquired shares on 31·3·2000

Balance Sheet on 31·3·2001

	Pltd	Sltd
PPE	900000	820000
Invts	900000	-
Current Assets	700000	140000
Share capital	1200000	700000
Other Equity	800000	(330000)
Current Liab	500000	590000

Balance Sheet 31·3·2002

	Pltd	Sltd
PPE	1100000	700000
Investments	900000	-
Current Assets	600000	100000
Share Capital	1200000	700000
Other Equity	900000	(730000)
Liability	500000	830000

Prepare CBLs on various dates.

(11) Consequential Adjustments arising due to Revaluation

(i) On the date of Acquisition, Revaluation is mandatory for net Assets of Subsidiary. But if consolidation is after date of Acquisition i.e. Gap exists between 2 dates, then consequential Adjustments may be needed, like

- Additional Depreciation/saving in Depreciation on PPE/Intangible Assets
- Elimination of Profit/loss on sale of Assets within group
- Elimination of other Expenses arising on settlement of Debtors/Creditors
- Deferred Tax effect on above.

(ii) Consequential Adjustments will be adjusted in SINA and B/S.

NOTE Calculation of Additional Depreciation

Depreciation that should be charged on Fair Value of Assets in post Acquisition Period	xxx
Less Depreciation already charged in post Acquisition Period	xxx
Additional/Saving in Dep	xxx

NOTE If Question is silent on sale/Purchase/settlement of Revalued Assets/Liabilities, then assume No Sale/settlement taken.

(12) <u>Contra Adjustments</u>

If in Consolidated Balance sheet, any Balances are appearing which are in nature of

- Receivable / Payable within Parent / subsidiary
- B/R and BP " " "
- Loan Receivable / Payable " " "

then such Receivable / Payable should be eliminated. If any difference exist in Balance, such difference should be reconciled. Generally such difference is due to In transit items, which should be reported in Cash and Cash Equivalents.

(12) <u>Uneven Items and Time Adjustment</u>

(i) If date of Acquisition is during the period on which date Profit/loss is not available then

Assuming uniform Profits, we should calculate Pre/Post Acquisition items.

(ii) If uneven items like Abnormal loss/Gain i.e. any special item which does not occur evenly during period

OR

There can be some expenses or incomes which are reported for part of year (means not for full period given in Question)

then

- Cancel uneven items of Subsidiary in Statement of I. Net Assets
- Apply Time Adjustment, if any
- Consider / Reinstate uneven items as per actual date of occurrence.

Example

Balance sheets on 31-3-2001

	P Ltd	S Ltd
PPE	10,00,000	800,000
Investment Property (Land)	500000	–
Goodwill	100000	50000
Investment in Subsidiary 70% (on 1-4-2000)	20,00,000	–
Inventory	500000	300000
Trade Receivable	200000	400000
Cash & Bank Balance	100000	70000
Share Capital	30,00,000	10,00,000
Other Equity PL	300000	200000
GR	200000	100000
Trade Payable	900000	320000

Statement of Profit Loss	P Ltd	S Ltd
Sales	40,00,000	30,00,000
Other Income	500000	300000
Cost of Sales	30,00,000	20,00,000
Depreciation	100000	100000
Other Expenses	1300000	1100000
Profit	100000	100000

SOCE - P Ltd	PL	GR	Total
O Balance	200000	200000	400000
+ T.C.I	100000	–	100000
	300000	200000	500000

SOCE - S Ltd	PL	GR	Total
O Balance	100000	100000	200000
+ T.C.I	100000	-	100000
	200000	100000	300000

Adjustments:

(1) Sale/Purchase within group ₹ 200000

(2) For S Ltd on date of Acquisition

	Fair value	Book value	Remarks
PPE	10,00,000	900000	
Stock	100000	80000	60% sold during year
Land	500000	400000	(sold during the year)
Trade Receivable	370000	380000	(40% Realised during year)
Trade Payable	500000	550000	(30% settled " ")

(All sale/settlements were at fair value)

(3) On date of consolidation Receivable/Payable within group was ₹10000 and ₹6000. Difference due to in transit amount.

(4) Revalue PPE of P Ltd on 31.3.01 by ₹ 20,000 upward.

Prepare consolidated financial statements.

(13) Dividend Adjustment

(i) Concept of Pre + Post Aquisition Dividend given by AS-13 not Relevant

(ii) In Separate financial statements

- Dividend Proposed :→ No treatment. Give disclosure.
- Dividend Declared :→ Record it as appropriation in SOCE + Other financial liab (Current Liab)

  SOCE A/c Dr
  To Dividend Payable
  (Being dividend appropriated)

- Dividend Earned (when declared)

  Bank / Dividend Receivable Dr
  To P/L (Other Income)
  (Being dividend Income Recorded)

(iii) In Consolidated financial Statements

Step 1 : Cancel/Eliminate Dividend Declared by Subsidiary in Statement of % Net Assets. (By adding to Post Acquisition)

Step 2 : Apply Time Adjustment if any

Step 3 : Dividend Income of Parent will be eliminated in Consolidated Equity.

Step 4 : While Calculating Non Controlling Interest, Dividend for NCI share will be deducted as distribution to NCI

(14) Goodwill Impairment

Total cumulative impairment loss on Goodwill shall be adjusted in consolidated financial statements

(a) If NCI @ PSNA

Consolidated Equity Dr
 To Goodwill
(Being goodwill written off)

(b) If NCI @ fair value

NCI A/c Dr (Share of NCI)
Consolidated Equity Dr (" " Parent)
 To G/W (cumulative impairment)
(Being goodwill impaired)

(15) Unrealised Profit/loss on assets transfers

(a) Upstream (Sale by Subsidiary)

- Adjust it in Post Acquisition in SINA
- Journal

SINA Dr
 To Stock/PPE
(Being U/P cancelled)

(b) Down stream (sale by Parent)

- Adjust it in Consolidated Equity
- Journal

Consolidated Equity Dr
 To Stock/PPE
(Being U/P cancelled)

Notes: Calculation of U/P stock

Step 1: Calculate Book value of stock still in hand on B/S date arising from internal profits.

Step 2: Calculate % of profits on such Transfer

Step 3: U/P = Step 1 × Step 2

Note: Calculation of U/P on PPE

Step 1 : Calculate Book value of PPE arising from Internal T/F as on Balance sheet.

Step 2 : Recalculate Book value of PPE arising from Internal Transfer as on Balance sheet date after
- Eliminating Profit/loss on transfer
- using new scrap value & new life of asset.

Step 3 : Difference in step 1 & step 2 as U/P

Example : On 1/4/2000 P Ltd acquired 80% shares of S Ltd for ₹ 10,00,000 on that date. Identifiable net Assets of S Ltd were ₹ 850000.
NCI @ fair value was ₹ 300000.
On 31.3.2001, Goodwill was tested for Impairment and found that ₹ 50000 is impaired.
Show effects in CFS assuming NCI@FV and NCI@PSNA

(16) Investment Recorded by parent at Fair value / at Cost Price

Case A : If Parent records Investment in Subsy @ cost, then nothing special.

Note: If Question is silent, we always assume Investment is at Cost.

Case B : If Parent records Investment in Subsidiary @ Fair value then, for consolidation purposes,

Step 1 : Eliminate effect of Revaluation made by Parent after obtaining control. Such Elimination will be in P/L or OCI of Parent.

Step 2 : Consolidate as usual based on Cost of Invts.

(17) Dividend Distribution Tax (Now not applicable)

(i) Ignore DDT if it is yet to be adjusted.

(ii) If DDT is already adjusted in Question

It is treated as Same as Dividend Adjustment. i.e.

- DDT will be added back in SINA and
- deduct Parent share in Consolidated Equity / SOCE
- " NCI " " NCI

(18) Bonus distribution by Subsidiary

If Subsidiary distributes Bonus, then it will have No effect Consolidation Process.

Example Balance sheet 31.3.2001

	Pltd	Sltd
PPE	500,000	400,000
Invt in Sltd 60% Share @ fair value	7500000	-
Invt in Bonds (5% Int)	-	100000
Inventory	300000	200000
Other Assets	400000	300000
Share Capital	10,00,000	500,000
Other Equity	300000	100000
Liability	650000	400000

Adjustments

1. Shares in Sltd were aquired by parent on 1/10/00 for ₹ 700000. Pltd records Investment in subsidiary @ FVTPL.
2. Sltd had purchased 5% Bonds on 1/1/2001.
3. Pltd sold Inventory costing ₹ 100000 for ₹ 120000 to Sltd on 1/2/01. out of Inventory 40% still in stock of Sltd.

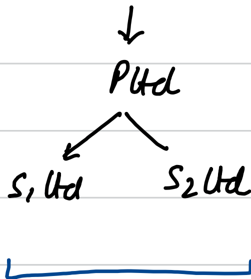
Prepare CBLS assuming Balance in other Equity of Sltd is ₹ 40000 on 1/4/2000.

(19) Multiple Subsidiaries of Parent

(i) Parent can have multiple subsidiaries, but one subsidiary cannot have multiple parent

(ii) Such Subsidiaries can be

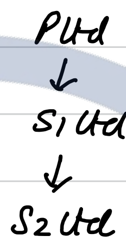
Direct subsidiaries of Parent



Consolidate as usual considering each Subsidiary separately.

Indirect Subsidiaries of Parent (called chain)

I shaped



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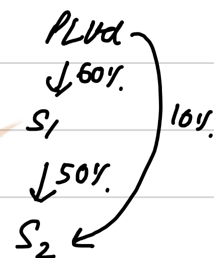


Step 1 Identify Subsidiaries of Parent

Step 2 Identify Date of Acquisition for Parent

Step 3 Identify Ownership and NCI % owned for Parent for each Subsidiary

Step 4 Consolidate as usual Except Investment held by Subsidiary in another Subsidiary should be Eliminated while calculating G/W and NCI

Example Balance Sheets as 31.3.2001

	P Ltd	S_1 Ltd	S_2 Ltd
PPE	20,00,000	18,00,000	15,00,000
Investment in 60% S_1	15,00,000	–	–
80% S_2	–	12,00,000	–
Current Assets	5,00,000	3,00,000	4,00,000
Share Capital (₹10 each)	15,00,000	10,00,000	10,00,000
Other Equity	10,00,000	6,00,000	4,00,000
Current Liability	15,00,000	17,00,000	5,00,000

P Ltd acquired shares on 1.4.2000 when Reserve + Surplus of S_1 were ₹ 400000.

S_1 Ltd acquired share of S_2 Ltd on 1.7.2000 when Reserve & Surplus of S_2 Ltd were ₹ 300000

Prepare CBLS

Example Balance sheet on 31·3·2001

	P	S_1	S_2
PPE	30,00,000	20,00,000	1500,000
Invt in share of S_1 Ltd 70%	1500,000		
S_2 Ltd 10%	300000		
S_2 Ltd		20,00,000	
Current Assets	700000	10,00,000	500,000
Share Capital (₹10 each)	2500000	10,00,000	700000
Other Equity	1500000	700000	300000
Current Liability	1500000	3300000	10,00,000

1) P Ltd acquired its Investment in S_1 Ltd on 1·7·2000 Balance in R/S on 1/4/00 of S_1 Ltd was ₹500000
2) Investment in S_2 Ltd were acquired by P & S_1 Ltd on 1·11·2000. Balance in R/Surplus of S_2 Ltd on 1·4·2000 was ₹ 200000
3) Dividend Paid S_1 Ltd ₹100000 S_2 ₹90000
4) Contra Receivable P Ltd 10000 from S_2
   S_1 Ltd 15000 " S_2
5) • Unrealised Profit on goods sold by P to S_2 ₹ 10000 @ 20% Profit on sale
   Goods are still in Stock
6) Calculate NCI @ F.V. Market Price of share of S_1 Ltd is ₹19 and for S_2 Ltd ₹18

Prepare consolidated B/S

(20) Loss of Control - (LOC) Accounting effects

(i) LOC means when parent stops / ceases control over subsidiary.

(ii) Following can be reasons of LOC
- (a) Sale of Investment by Parent
- (b) Dilution in stake due to non subscription on Issue of shares
  - options held by NCI are subscribed by NCI
  - Parent does not subscribe to further Issue of shares

(iii) Sale of Investment can be single sale or sale in multiple lots. In case of sale in multiple lots, consider LOC on date when control is actually lost.

(iv) Any consideration received till Date of LOC is considered Advance Liability.
" " receivable " " " " " " Receivable Asset

(v) Accounting Treatment

- Derecognise a) Net Assets Consolidated from such subsidiary including Goodwill
  - b) NCI on date of LOC
- Recognise a) Consideration Received for LOC if any
  - b) Retained Investments @ Fair value.
    Fair value will be either given in Question or use subscription Price or calculate Intrinsic value or Market Price of such Investments.

Intrinsic value = $\frac{\text{For Subsidiary (INA + G/W + Subscription Amt Received)}}{\text{Post-subscription no. of shares of subsidiary}}$

- Reclassify items of OCI of subsy in CPL of group
  (Items that can be Recycled transfer them to P/L)
  (Items that cannot " " " " " other components of Equity)

- Disclosure is Required under Ind AS-112 for gain/loss on Remeasurement of Investments Retained.

Gain/loss on Remeasurement = Fair value of Retained Investments   xxx
Intrinsic value " "   xxx
   xxx

• Journal Entry

Bank A/c Dr (Consideration Received)
NCI Dr
Retained Investments at Fair value
To NCI of subsidiary
To Goodwill
To Gain on disposal
(Being LOC adjusted)

• Accounting effect in separate financial statement

Recognise Sale as usual

Bank A/c Dr
To Invts Book value
To gain on sale
(Being Inv sold)

* If Parent holds Subsidiary with objective of sale then at Reporting date Investments are recorded at Lower of Book value and fair value less Cost to sell. In this case, Losses is recognised on reporting date. This is given in Ind AS-105.

Example Balance sheet on 31·3·2023

	Pltd	S_1	S_2
PPE	20,00,000	1500000	10,00,000
Investment in 80% S_1	2500000		
70% S_2	1800000		
Current Assets	200000	700000	500000
Share capital	30,00,000	10,00,000	700000
Other Equity	20,00,000	700000	500000
Current liability	1500000	500000	300000

Additional Information

(i) Pltd had acquired shares on 1·7·22 and 1·8·22 for S_1 and S_2

(ii) Balance in Reserve on 1·4·22 were

	S_1	S_2
O Balance	200000	200000
PAT 22-23	400000	300000

(iii) Statement of P/L

	P	S_1	S_2
Sale	50,00,000	20,00,000	10,00,000
Cost	4700000	1700000	800000
PAT	300000	300000	200,000
OCI - can be Recycled	200000	70000	40000
Cannot " "	300000	30000	60000
	800000	400000	300000

OCI was due to gain in March 2023

(iv) On 31/3/23, Pltd sold Investment in S_2 for ₹ 20,00,000.

Prepare Consolidated financial Statements.

(21) Purchase of Investment after obtaining Control or
Sale " " Before Loss of Control

Journal for Sale without LOC	for Purchase of Invs
(i) It means Sale to NCI or Increase in NCI Bank Dr Amt Received Gain/loss on sale of NCI A/c To NCI * (Being NCI sold) (ii) * $\frac{\text{Net Asset + G/w}}{\text{100\% share}} \times$ NCI Increase in share	(i) It means purchase of NCI or Reduction of NCI NCI Dr Pro-rata value To Bank Amt Paid To gain/loss on Purchase (ii) Gain/loss on Purchase of NCI will be directly adjusted in SOCE

(22) Uniformity in financial Statements

(i) Ind AS-110 requires that financial statements of Subsidiary should be made uniform in context to policies for similar transactions and other events, in similar circumstances.
 * For this purpose, Accounting policies and classifications for Items of Subsidiary should be reviewed by Parent.

(ii) Depreciation method is not policies, hence parent and Subsidiary can have different Depreciation methods. (Depreciation method is an accounting estimate for consumption of asset. Generally this remains same for assets.

(iii) Example of different policies can be stock valuation Policy or Cost Formula.
 Note: Cost Formula is Accounting Policy as per Ind AS-8. This is same for all inventories which are similar in nature or use. If Inventory is not of similar nature, Entity can have different Cost formula.
 Hence in Consolidated financial Statements, Parents + subsidiary should have same Cost Formula, unless Inventories are different in nature.

(iv) Sometimes Parent and Subsidiary financial Statements are of different dates. Ind AS-110 allows consolidation of these Statements provided GAP not exceeds 3 months. In these cases Assets/Liabilities should be Reclassified/Reviewed for classification in current/Non current based on Group Reporting Date.

(V) If Parent is Indian but Subsidiary is foreign

and

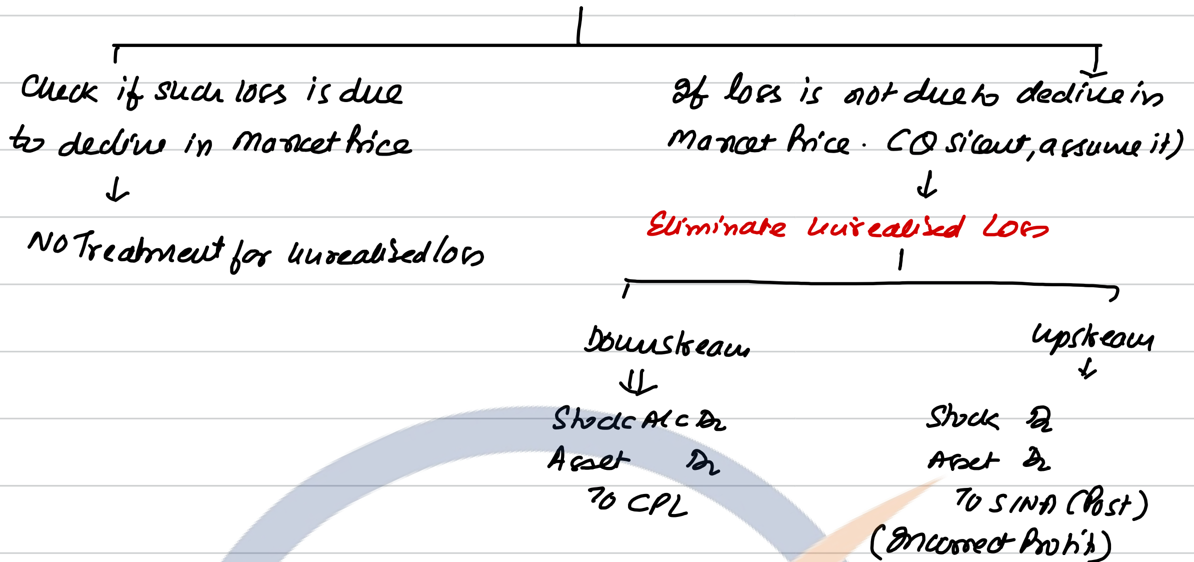
Subsidiary has breached loan covenants, thereby loan has been classified as current liab (Ind AS-1)

then

while consolidating load will be classified as Non current if lender has agreed not to demand repayment/breach has been rectified post Balancesheet date.

(23) If subsidiary has Cumulative Pref shares, then while preparing SINA, Preference dividend for post Acquisition should always be considered. Dividend declared or not is not Relevant (Para B-95)

(24) Unrealised Loss on Sale/Purchase



Example Balancesheet 31·3·21

	P Ltd	S Ltd
PPE	10,00,000	700000
Invt in ordinary shares 90%	17,00,000	–
Current Assets	800000	500000
Share Capital ordinary ₹10 each	1500000	800000
9% Cum Pref shares	200000	100000
Other Equity	300000	200000
Current Liability	1500000	100000

Additional Information

(i) P Ltd had acquired Investments on 1·4·20 when Balance in R/surplus of S Ltd was ₹80000

(ii) S Ltd has not declared any dividend on Pref shares

(iii) P Ltd sold Stock 'A' Costing 10000 for ₹8000 to S Ltd. 30% of stock is still held by S Ltd

(iv) S Ltd sold stock 'B' costing 4000 for 3000 to P Ltd. 50% of stock is still held by P Ltd. Market Price of such stock are declining due to low demand

Prepare CBIS

(25) Meaning of Control (under Ind AS-110)

(i) Parent & subsidiary relationship arises due to Control. Whenever Investor controls any other entity (Investee), then Investor is called Parent and Investee is called subsidiary.

(ii) All Entities are not subsidiaries. It means all entities are NOT controlled by Investor. Some may be Jointly controlled or professionally managed. Hence Parent is not necessary for all Entities.

(iii) A subsidiary cannot have two parents. It can have parent and ultimate Parent.

(iv) Control is defined by Ind AS-110.

ALL of FOLLOWING conditions must be satisfied for Control

Condition no 1 — Investor should have Power over Investee

Condition No 2 — Exposed / Right to variable Returns due to its involvement with Investee

Condition No 3 — Ability to use such power over Investee to affect amount of Investor Return.

Text of Ind AS-110

7 Thus, an investor controls an investee if and only if the investor has all the following:

(a) power over the investee (see paragraphs 10–14);

(b) exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16); and

(c) the ability to use its power over the investee to affect the amount of the investor's returns (see paragraphs 17 and 18).

(A)

(v) To identify Power over Investee (POI) following steps are applied

Step 1 Identify design and structure of Investee i.e.

- Is it a company or firm etc?
- What are rules of management?
- Governing Articles of Association?
- Purpose of such design?
- why Entity was formed?
- Contractual obligations and Rights.

Note: Generally any entity formed by Investor for its own Objectives are considered that Investor has POI.
i.e. A company formed by RIL will have bright chance that RIL has POI.

Step 2 Identify Relevant Activities of Investee
Relevant Activities means operating and financial policies, practices of Investee which most significantly affects Returns of Investee (MSAR). Generally following are RA

- Selection of goods & services for sale by Investee
- Managing assets of Investee
- Developing new products, Production Process or General Process
- Funding Structure
- Budgets and Targets of Sale / other Items
- Appointment / Removal / Remuneration of Key Managerial Persons

Step 3 Identify Investor who has power over Investee. It means identify persons who has current ability to direct Relevant activities of Investee.

* Person can be Company / Non Company
* Current Ability means POI can be exercised now

Note: If notice Period is Required for convening meeting still we consider Investor has current ability.

Note: If Investor has Rights that will provide POI in future and current Investor is in Stale mode (can't take decisions) then we assume Investor having POI as current.

* How to Identify "Directing Relevant Activities"

It can be through
- Voting Power or/and
- Contractual Rights.

Step4 : Directing Relevant Activities through Voting Power

Such Voting Power should be Substantive i.e meaningful i.e. NOT having any restrictions on use of Power.

Examples on Restrictions can be

(i) High Penalty / Loss on using Voting Power
(ii) Govt Permission needed for using " "
(iii) Bad Terms / Conditions may arise on use of Voting Power

Voting Power may provide Investor PoI through

- Majority Rights i.e. Holding majority Rights that give Power to direct RA or Power to Compose governing Body that will direct RA
- Minority Rights i.e. Holding minority rights but still has practical ability to Unilaterally Power to direct RA.
  - * Minority Rights Plus Substantive Potential Voting Rights may provide power to direct RA. Substantive means meaningful / i.e. that can be exercised / In money / not deeply out of money. (If Investor is not sure about exercise of Potential Rights, then consider them as Not Substantive
  - * Minority Rights Plus Absolute size of shareholding Vs Relative size of holding. It means other Shareholders are wide spread and not Connected to each other and has low participation in meetings in past.

Note: If different Persons have power to direct different RA then Judgement should be applied and identify Relevant Activities that MSAR of Investee. These facts should be Reviewed Consistently

Step 5: Directing Relevant Activities Through Contractual Rights

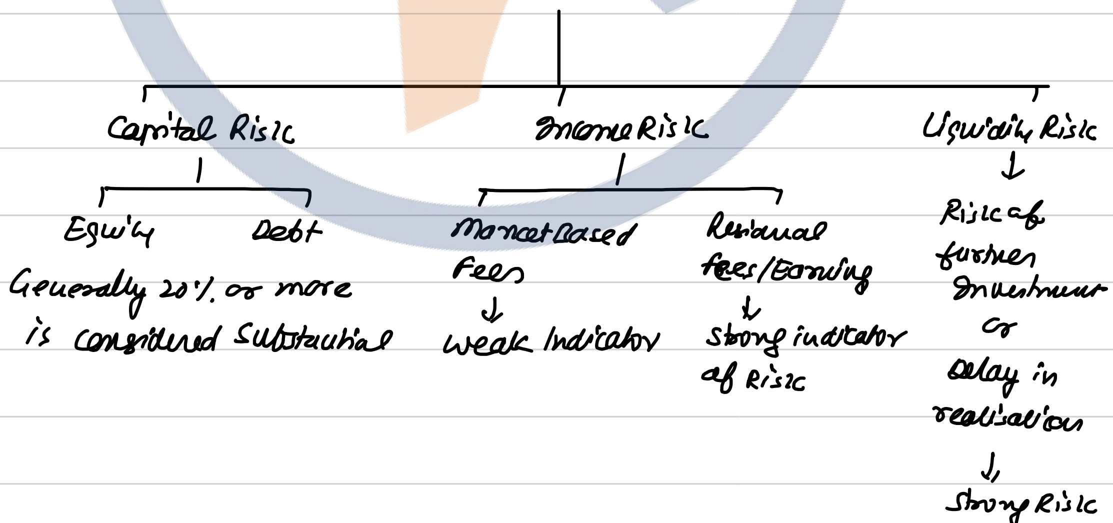
Sometimes Contractual Rights held by Investor provides it with power over Investee. Such Contractual Rights should be Substantive. i.e. meaningful i.e. without any restrictions on using such rights.

* Always check for Evidence of such rights and verify that Entity has obtained Practical ability to direct RA due to such Contracts.

* Such rights should not be protective rights. Protective rights are rights which prohibit fundamental changes to Entity or protect brands / licence or liquidity.
Generally Banks hold protective rights i.e. they put restrictions on Capital Inflow / outflow, Dividend Distribution, Capex. These are not rights to direct RA.

(B) Condition No 2 Exposed / Rights to variable Returns from involvement with Investee

a) Such exposure should be Substantial.
b) Risk / Exposure can be



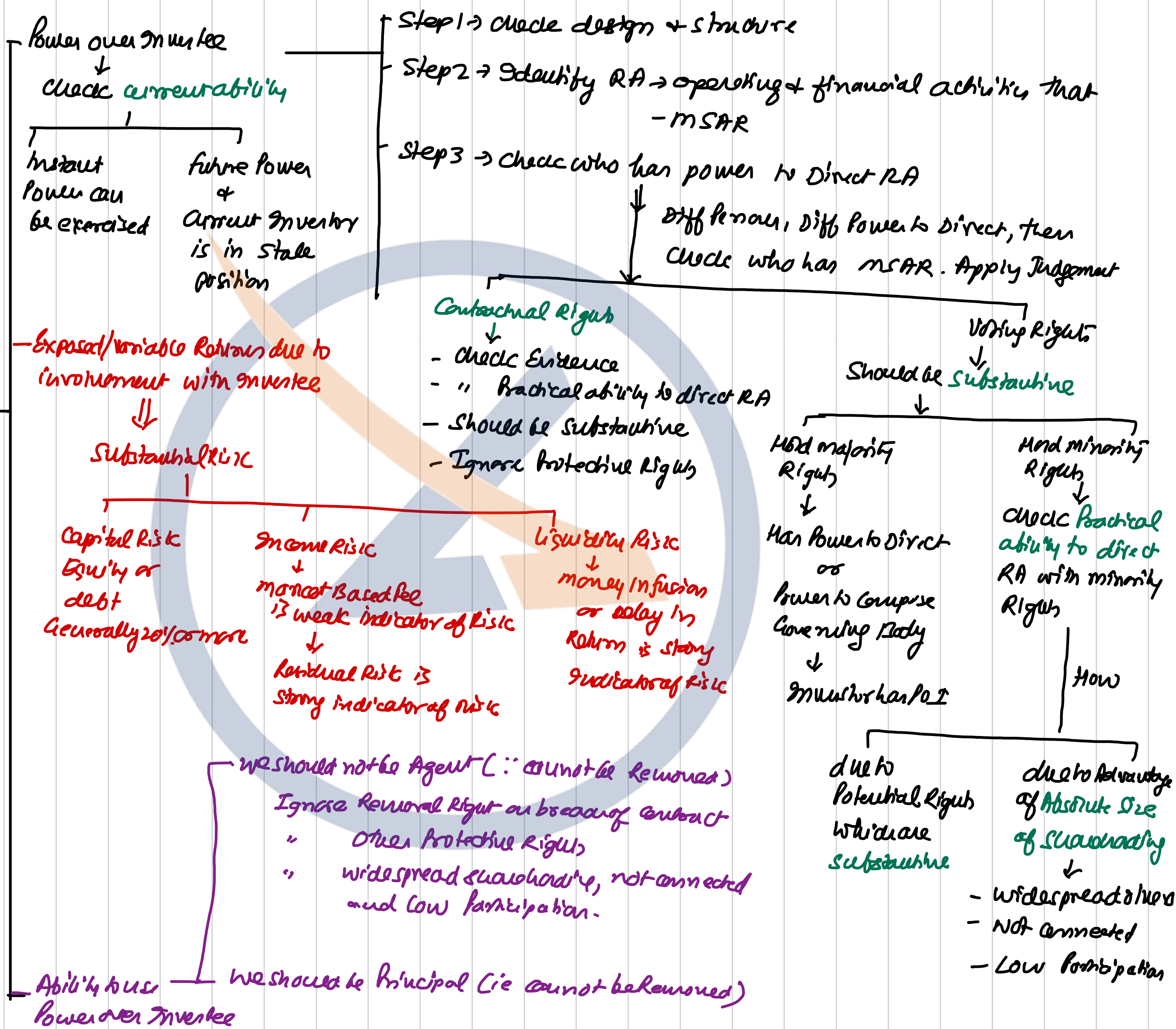
(C) Ability to use such power over investee as principal (not an agent)

It means none should have removal rights against us.

Note:

Sometimes, a person may hold removal rights against us for breach of contract. These are considered as protective rights of other parties. Hence we consider that removal right does not exist.

Note: If widespread shareholders have power to remove investor and such shareholders are not connected to each other & have low participation, ignore such removal rights.


Control if all conditions are satisfied
Power over Investee
↓
Check currentability
Instant Power can be exercised
Future Power & Current Investor is in Stable Position
Step1 → check design + structure
Step2 → Identify RA → operating + financial activities that - MSAR
Step3 → Check who has power to Direct RA
Diff Person, Diff Power to Direct, then check who has MSAR. Apply Judgement
Contractual Rights
- Check Existence
- " Practical ability to direct RA
- Should be substantive
- Ignore Protective Rights
Voting Rights
Should be Substantive
Hold majority Rights
Has Power to Direct or Power to Compose Governing Body
Investor has PoI
Hold minority Rights
Check Practical ability to direct RA with minority Rights
How
due to Potential Rights which are substantive
due to Advantage of Absolute Size of Shareholding
- Widespread others
- Not connected
- Low Participation
- Exposed/Variable Returns due to involvement with Investee
Substantial Risk
Capital Risk
Equity or debt
Generally 20% or more
Income Risk
Market Based Fee is weak indicator of Risk
Residual Risk is Strong indicator of risk
Liquidity Risk
Money Infusion or delay in Return is strong indicator of risk
- Ability to use Power over Investee
We should be Principal (ie cannot be Removed)
We should not be Agent (∵ cannot be Removed)
Ignore Removal Right on breach of contract
" Other Protective Rights
" Widespread shareholding, not connected and low participation.

(26) Exemptions from applying Ind AS-110

A parent is NOT required to present Consolidated financial Statements if

Case A (Para 4a)
- Subsidiary is wholly owned or partially owned* by another Entity

+

- Parent is NOT listed Entity or in process of listing ie (debt/Equity should not be listed/Process of listing)

+

- Intermediate/Ultimate Parent prepares financial Statements (SFS or CFS) in accordance with Ind AS in which subsidiaries have either been Consolidated or @ FVTPL using Ind AS-109

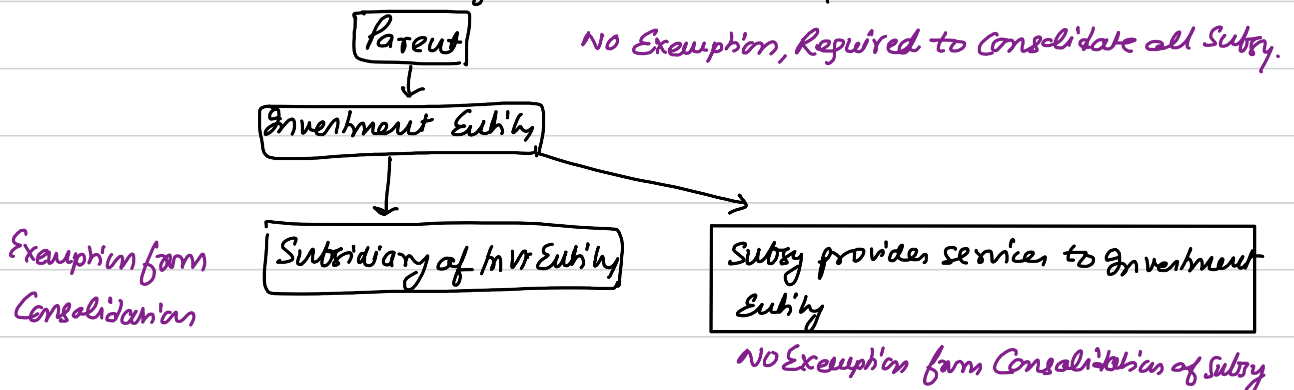
* In case of Partially owned → other owners have been informed and they do not object to non preparation of CFS.

Case B (Para 4A) Where parent is any long term Employee Benefit Plan or Post Employment Benefit Plan covered by Ind AS-19

Case C (Para 4B) Where parent is an Investment Entity and records subsidiary (All Subsidiaries) @ FVTPL

Note: Investment Entity is required to consolidate its Subsidiary if such Subsidiary is engaged in providing services to Investment Entity.

Note: Parent of Investment Entity will be consolidating all subsidiaries unless Parent is itself an Investment Entity.



TEXT OF IND-AS-110

Scope

4 An entity that is a parent shall present consolidated financial statements. This Ind AS applies to all entities, except as follows:

(a) A parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind ASs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this Ind AS.

(b) *Omitted**

(c) *Omitted**

4A This Ind AS does not apply to post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, *Employee Benefits*, applies.

4B A parent that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 31 of this Ind AS, to measure all of its subsidiaries at fair value through profit or loss.

(27) Meaning of Investment Entity

When Entity satisfies all of following conditions then such entity is Investment Entity

Condition No 1 Entity obtains funds from one or more Unrelated Investors with objective of providing Investment Management Services.

* Generally
- more than 1 Investor
- " " 1 Investment
- Investors are unrelated to each other
- I. Entity has issued units/capital which is repayable @ NAV

Above points can be used for judgement.

Condition No 2 Entity commits to owners that Business purpose of Entity is for Capital Appreciation of Investments and/or Investment income from Investments.

* If any other Business purpose is identified then this condition will be Failed condition.

* Entity must have Exit Strategy for its Equity Investment
i.e. Entity should have documented on how to get
out of Investments.

* Exit strategy is NOT needed for debt Investments
since these have own maturity period.

Condition No 3 Entity measures its performance based on changes in
fair value of Investment. It means resources of
Subsidiary are not in fact controlled by Invt Entity.

Note: If any Investor is getting compensation for
providing Advisory services to Investee, which are
substantial in nature, then such Investor is not
Investment Entity.

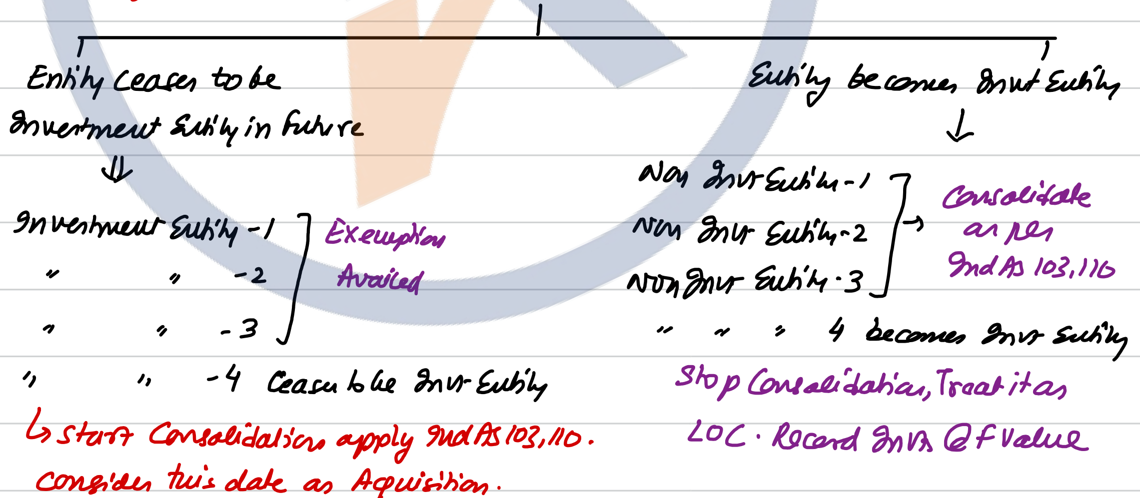
investment entity An entity that:

(a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

(b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

(c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

(28) Changes to Investment Entity Status



(29) Treatment of Acquisition Expenses or Expenses incurred by
Parent for acquiring control should NOT be capitalised.
These should be written off in P&L (Ind AS-103). Example,
– commission, legal Expenses, stampduty etc

Generally following costs are incurred
- General Administration cost
- Consulting Expenses
- Legal Expenses
- Stamp duty
- Professional Expenses
- Valuation Expenses
- Govt Charges

⇒ T/f to P&L

- Cost of Issue of debt / Equity] dealt by Ind AS-109

(30) Date of Acquisition (Ind AS-103)

- This is date when parent obtains control over subsidiary. means all conditions of control are satisfied.

- Generally when consideration is paid, Assets control is obtained, liabilities are assumed by parent. It is date when power to direct RA is obtained.

- If any govt approval, which is Substantive is required, then control is obtained when govt approval is obtained.

Ind AS-28

(34) Treatment of Equity method

(i) Ind AS 28 requires application of Equity method on Investments in Associates + Joint Ventures
Equity method means "Investments are remeasured at Equity Value"

(ii) In separate financial Statements, (Ind AS 27)

Investment In Associate/JV Dr @ Cost/FV
To Bank
(Being Inv recorded)

- When associate/J.V earns profit
  -No Entry-

- When Dividend is Earned from Associate/J.V
  Bank A/c Dr
  To P/L
  (Being Dividend Earned)

(iii) In consolidated financial statements - Apply Equity method

Under Equity method
-Investments recorded at Cost are remeasured by increasing/Decreasing it with post Aquisition share of
- Profit/Loss of Associate/J.V
- OCI " " "
- other changes in Net Assets of Associate

NOTE: This Investment should include any Goodwill on acquisition. Such Goodwill will not be recognised but disclosure is made.

Note: Investment may get impaired due to Goodwill Impairment. Entry would be

P/L A/c Dr
To Invt in Associate/J.V
(Being Investment Impairment)

Note: SINA should be prepared as in case of Subsidiary. If Associate/J.V has paid Dividend, it should be added back to SINA and Eliminated in other Equity of Parent

P/L/Other Equity of Parent Dr
To Invt in Associate/J.V
(Being Dividend cancelled)

Note: Contra items will NOT be Eliminated

Note: Unrealised Profit will be dealt as follows

P/L/Other Equity Dr
To Stock (Upstream)
To Invt (Downstream)
(Being U/P cancelled)

* No effect of U/P upstream in SINA

Note: If date of Parent and Associates financial Statements are different, Still Equity method can be applied upto date of parent financial Statements provided Gap between dates does not exceed 3 months.

Note: Before applying equity method, necessary changes should be made for making policies uniform for similar items and circumstances.

Note: Cumulative Pref. shares of Associate should be adjusted in Post Acquisition Profits even if Dividend is not declared.

Note: Do not line by line Consolidation.

(iv) Unrealised Loss - Associate

- Unrealised loss due to decline in Market Price
  - ↓ No Treatment
  - (∵ Vendor booked impairment loss & Profit was not booked)
- Unrealised loss NOT due to decline in M.P (Q Silent assume it)
  - Upstream
    - ↓ Do not Adjust it in SINA
    - ↓ Share Dr To P/L (Being U/Loss Cancelled)
  - Down Stream
    - ↓ Invt Dr To PL

(35) Presentation of Investments in B/Sheet

(i) NCA - Financial Asset

Invt in Associate / JV	xxx	(Equity method)
+ Long term loan " "	xxx	
+ Invt in Pref share of Associate	xxx	
Net Investment in Associate	xxx	

Net Investment can become Zero but not negative.

i.e. 1st Adjust Post Acquisition losses with Equity till it become Zero
then 2nd " " " " " Pref " " " "
then 3rd " " " " " Long term loan " " "
Any further loss will be carried forward and Adjusted in future.

(36) Exemption from using Equity method if

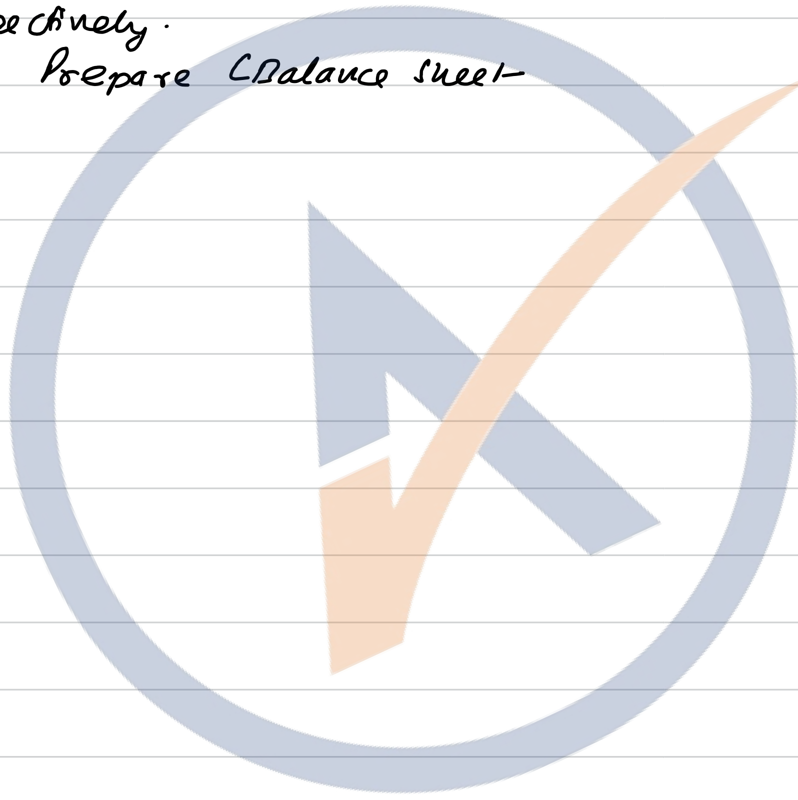
(i) Parent is exempt from preparing CFS under Para 4a of 110
(ii) Investor holding power to Participate in Associate is venture Capitalist, Insurance fund, mutual fund, Unit Trust, ULIP fund
* Investment should be reported at fair value
(iii) If Investor Indirectly holds some shares in Associate through Investment Entity, then exemption available for part held by Investment Entity. Apply Equity Method on Balance.

Example : Balance sheet 31.3.21

	P Ltd	S Ltd	A Ltd
PPE	500000	300000	200000
Invts in 80% SLtd	600000		
" " 30% ALtd	200000		
Current Assets	500000	300000	200000
Share capital	10,00,000	400000	300000
Other Equity	300000	50000	50000
Liability	500000	150000	50000

All Share were acquired on 1.4.20 when Balance in Reserve & Surplus of SLtd & ALtd were ₹ 30000 and ₹ 35000 respectively.

Prepare CBalance sheet



Example

Balance sheets on 31·3·21

	Pltd	Sltd	J/A ltd
PPE	900000	800000	700000
Invts in 70% Sltd	1200000		
,, ,, 40% Jltd	800000		
Current Assets	800000	500000	400000
Share Capital	10,00,000	600000	500000
Other Equity	10,00,000	300000	200000
Current Liability	1700000	400000	400000

Pltd acquired shares on 1·4·20

Statement of P/L

	Pltd	Sltd	J/A ltd
Revenue	30,00,000	10,00,000	800000
Costs	2700000	800000	700000
PAT	300000	200000	100000
OCI cannot be Recycled	50000	30000	40000
T·C·I	3,50000	230000	140000

SOCE Pltd

	OCI	P/L	Total
O Balance	-	650000	650000
T.C.I	50000	300000	350000
	50000	950000	10,00,000

SOCE - Sltd

	OCI	P/L	Total
O Balance	-	70000	70000
+ T.C.I	30000	200000	230000
	30000	270000	300000

SOCE - JLtd

	OCI	P/L	Total
O Balance	-	60,000	60000
T.C.I	40000	100000	140000
	40000	160000	200000

Investments were impaired by ₹ 50000 for JLtd

Prepare Con. B/S

Example P Ltd purchased 40% share of A Ltd on 1·4·20 for ₹ 20 lakh when Balance in Share Capital + Other Equity of A Ltd was ₹ 15 lakh & ₹ 10 lakh respectively.

During the year

(i) A Ltd distributed dividend ₹ 100000

" Earned PAT ₹ 600000

" " OCI ₹ 300000

" Increase in SOCE directly ₹ 50000

(ii) Fair value of Machine increased by ₹ 80000 (not yet Adjusted) on date of Acquisition

Consequential Adjustment on Machine ₹ 5000

(iii) P Ltd sold goods to A Ltd at Profit of ₹ 6000. 30% stock still unsold at A Ltd.

Another stock item was sold by A Ltd to P Ltd (or subsy of P Ltd) at Profit of 7000. stock still in hand 45%.

(iv) Reserve and Surplus of P Ltd on 31·3·21 ₹ 1200000

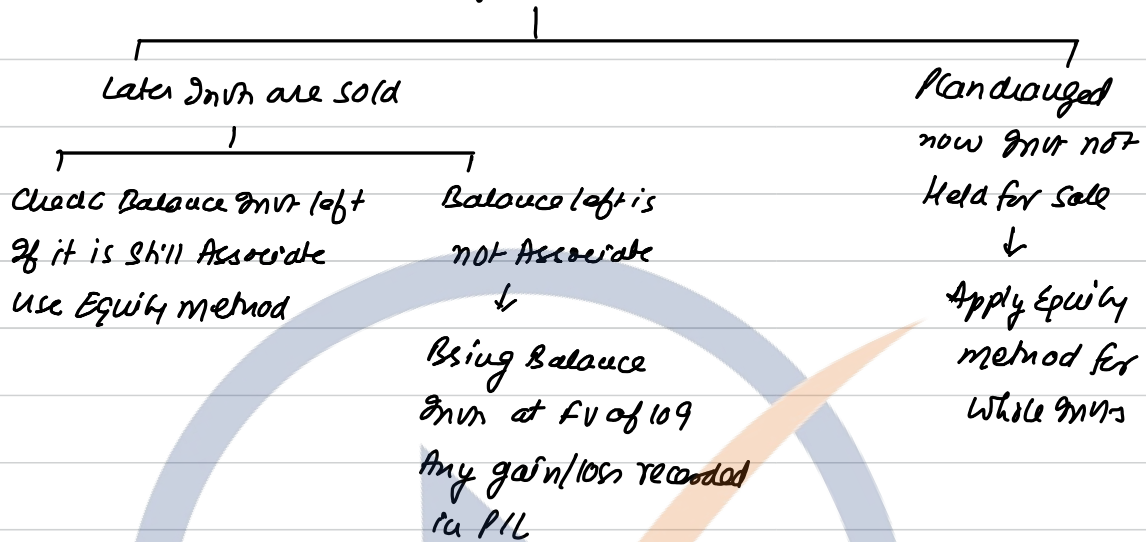
(v) Goodwill Impairment for Associate ₹ 10000

Calculate Value of Investment as per Equity method & Calculate Other Equity.

(37) Investment in Associates when held for sale

If Parent holds Investment for sale (wholly or partially) then

Investment in Associate/J.V
Held for Sale
(Show Invts at fair value less CTS)
Part not held for sale will be
at Equity method (even if small portion)



Example Parent holds 26% Investment in Associates, whose value as per Equity method is ₹10 lakhs.

On 1·3·21 Parent classifies 30% of such Invts as held for sale whose fair value less cost to sell is ₹ 250000.

On 31·3·21 Fair value less CTS is ₹ 240000 and if Equity method is applied, value is ₹ 1100000 for whole Investments.

On 30·6·21 Entity sold Invt held for Sale. Balance Invts are still held. Equity method value for remainder Invt is ₹ 7·40 lakhs. Invts were sold for ₹ 290000.

Calculate value of Invts on 31·3·21 and 30·6·21 along with Gain/loss on sale

(28) Conversion of Associate to Subsidiary

(i) In SFS it is birth of subsidiary

- Invt in Subsy A/c Dr — fair value of Purchase price
  To Bank
  (Being Invt Revalued)
- Invt in Subsy Dr — fair value
  To Invt in Associate — Book value
  To PL (Revaluation of Invt held)
  (Being share in Associate Revalued)

(ii) In CFS

- Invts in Associate recorded at Equity method will be revalued upto fair value

  Investment in subsy Dr — @ FV
  To Invt in Associate — EM
  To gain/loss on Remeasurement — B.F
  (Being Investment Revalued)

And
- Entry for Acquisition now made will be formalised as usual.

Note: Items of OCI of Associate will be transferred to

If such items can be Recycled — OCI
To P&L
(Being Amt t/f)

If such items cannot be Recycled — SOCE (OCI) Dr
To SOCE (Other Components)

* Consolidate Subsy on line by line basis.

(39) Meaning of Associate

(i) Associate is an entity on which Investor has Significant Influence

(ii) Significant Influence means power to participate (P/P) in financial and operating Policy decisions of Entity. (It does not include Control (Joint Control))

(iii) Power to Participate can be obtained through Voting Power

Voting Power of 20% or more → Presumed to be Power to Participate unless otherwise proved. (Example Other shareholders are preventing from using Power, means NO Power)

Voting Power of less than 20% → Assumed not Power to Participate unless otherwise Proved. Example
- BOD Director Representation
- Participation in policy making decisions of Entity
- Dependence of Investor or Entity for a) Material Transaction
  b) Key Mgt Persons
  c) Technology
  d) other factors of dependence

(iv) Potential Voting Rights

If Investor holds potential Voting rights that can be exercised anytime now
and
that will increase Investments to level making it P/P
then
Consider such Potential Voting rights.

* Do not consider "Intention of management to exercise P/P"

* Do not consider "financial capabilities of Investor to Exercise"
Just check (a) Currently Exercisable
(b) make our share upto P/P level.

(40) Accounting Treatment for J.Ventures

In SFS : Investments in J.V are recorded at Cost or FV as per Ind AS 109

In CFS : Investments in J.V are recorded at Equity method as done earlier

(41) Accounting Treatment for Joint Operations (JO)

In these cases, we do not record any investments in J.O. Instead we record

- Share in Assets
- " " Liab
- " " Income
- " " Expenses

} in SFS + CFS

* Sometimes operator (Party to J.O) of J.O has right to specific Assets and obligation towards specific liabilities. In such cases do not record share of such assets/liabilities. Record Complete Asset/Liability in books of operator

Note: Transactions between operator and J.O

Record Entries for Sale/Purchase of Assets between operator and J.O in such way that

- Profit or loss on own shares is not Recorded
- Loss in own share is recorded, if it is due to decline in market prices

(42) Meanings

(1) Joint Arrangement is arrangement in which 2 or more parties have Joint Control.

- Arrangement means understanding written or oral

(2) Joint Control means

Step 1 : Check that parties having understanding should be able to obtain control.

* Control means same as Ind AS-110
* If single Party can control, then it is not Joint Control

Step 2 : Check that parties having understanding must have agreement (written or oral) where unanimous Consent is required for directing Relevant Activities which most significantly affect Returns.

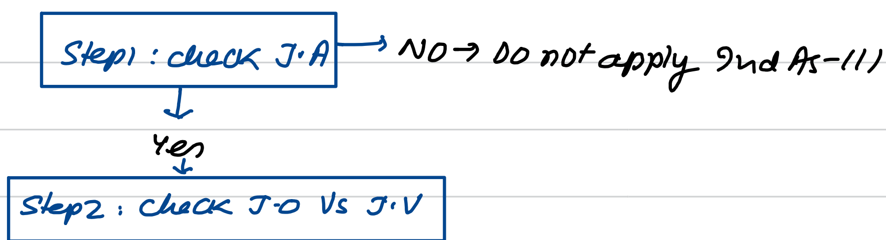
* Agreement can be written/oral, formal, informal
* " can be part of Articles of Association or Bye laws of Entity or Charter of Entity.
* If parties have power to direct different RA, then see MSAR.
* If any unanimous consent is needed as part of protective Rights i.e. where fundamental changes need unanimous consent, it is not MSAR.

If step 1 and step 2 both are satisfied, we call it Joint Control

Step 3 : If understanding for unanimous consent is missing, but parties are forced to unanimously consent due to implicit reasons, then also we consider Joint Control

If Joint Control Exists, it is Joint Arrangement.

(43) How to identify J.O and JV?



Note:

J.A

Unstructured (NO Entity Exist) ⇓ These are all J.O

Generally these are evidenced by agreement for sharing Asset/Liab/Income/Exp

Structured Entities or Vehicles made for J.A ↓

Check: Does parties have right to specific Assets + Liabilities?

Yes → J.O

NO ↓

Check: Does parties agree that almost all output /sale of Entity will be made to parties of J.A

Yes → J.O

NO ↓

It is J.V

Note: J.V are structured Entities where Entity will have ownership of all assets, having obligation to all liabilities, freedom to sell/produce its goods/fix its prices. It will bear all risks like Credit Risk, Inventory Risk etc.

Business Combinations (Ind AS-103)

1. This Standard deals with accounting for
   - Merger and Acquisitions
   - Calculations for Consolidation on date of Acquisition
   - Acquisition of business
   - Common Control Transactions including ~~De~~ merger

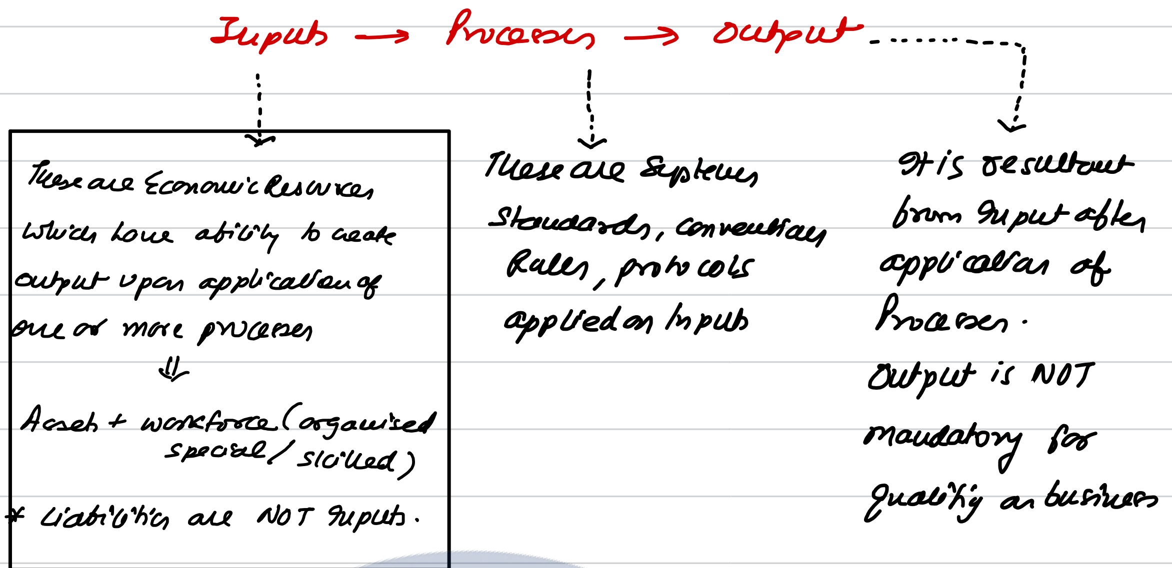
* Asset Acquisition is out of scope of this standard, but it includes guidance has been given for Asset Acquisition.

* Common Control Transactions are not covered by IFRS-3
This is a Carve In

2. Business Combination means acquirer obtains control over one or more business.
   - Control is defined Ind AS-110
   - Acquirer means Entity which obtains Control
   - Business means set of activities which qualify Business Assessment Test (BAT)

<u>Note:</u> Business means Integrated set of Activities and assets capable of being conducted and managed for the purpose of producing goods and services or for Investment Income (Dividend/Interest) or for other incomes from ordinary activities.

Elements of business



③ How to identify set of Activities acquired by Acquirer is business or Asset acquisition?

Step 1: Apply optional Concentration Test. If satisfied, it is asset acquisition. If not satisfied apply step 2

Step 2: Apply Business Assessment Test. (If Entity has not applied optional Concentration Test, then start with BAT directly)

Note: Concentration Test

Step 1 Calculate fair value of consideration

Interest already acquired @ fair value	xxx
+ NCI @ fair value	xxx
+ Consideration now being transferred	xxx
	xxx

Step 2 Calculate fair value of assets acquired

Fair value of consideration	xxx
+ " " " Liabilities assumed except DTL	xxx
− Cash and Cash Equivalents	xxx
Fair value of assets acquired	xxx

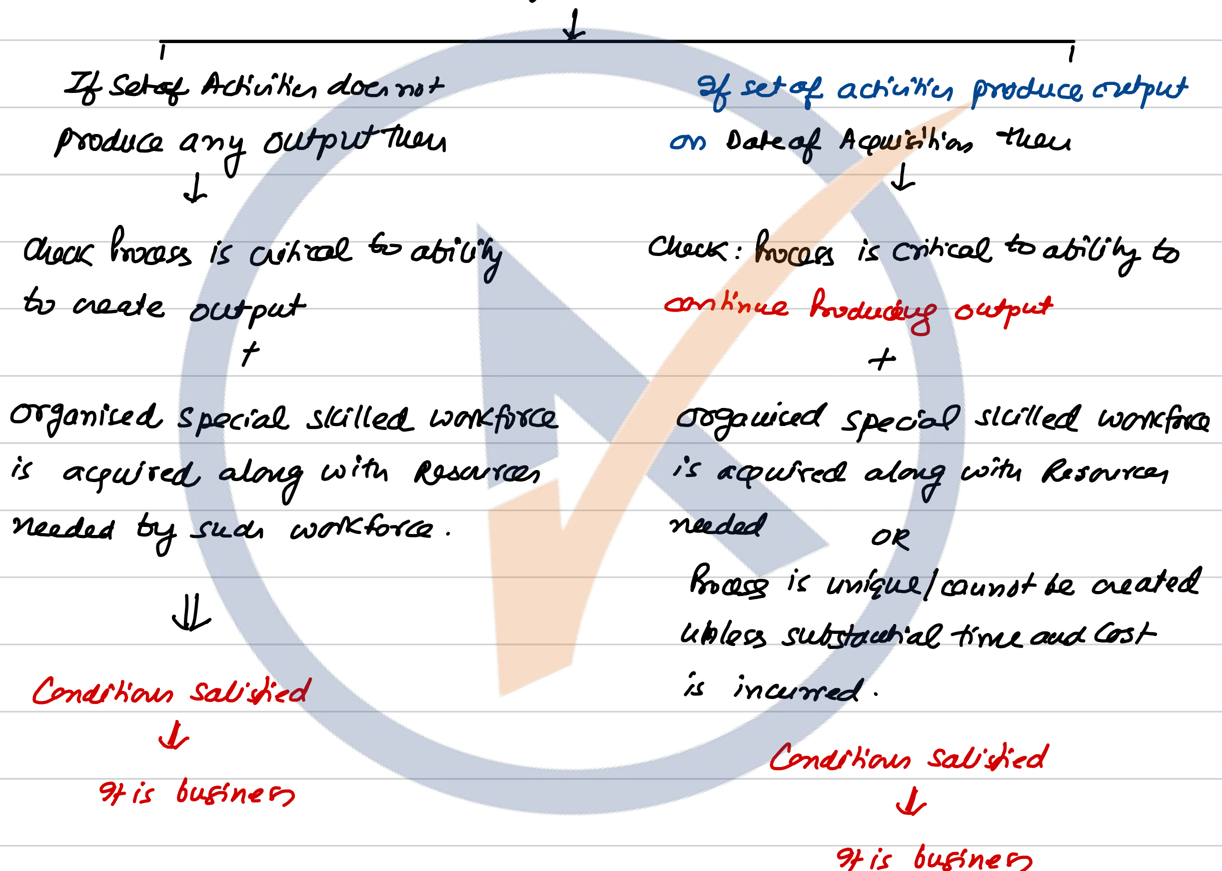
Step 3 : Identify single Identifiable asset or similar group of of Identifiable Assets

$$\text{Concentration Test} = \frac{\text{FV of Single Identifiable Asset}}{\text{FV of assets Acquired}} \times 100$$

If it is 90% or more, then assume concentration Test is qualified. It is asset acquisition.

NOTE : Under BAT

Check minimum one Input and Substantive Process should be able to create ability to produce outputs.



If set of Activities does not produce any output then

↓

Check Process is critical to ability to create output

\+

Organised special skilled workforce is acquired along with Resources needed by such workforce.

⇓

Condition satisfied

↓

It is business

If set of activities produce output on Date of Acquisition then

↓

Check: Process is critical to ability to continue producing output

\+

Organised special skilled workforce is acquired along with Resources needed

OR

Process is unique / cannot be created unless substantial time and cost is incurred.

Condition satisfied

↓

It is business

(4) Accounting for Asset Acquisition (as per guidance given in Ind AS 103)

Following entries are required in books of acquirer

(i) Revalue Assets transferred as part of purchase consideration through P/L A/c

Asset A/c Dr
To P/L

OR

P/L
To Asset

(Being assets Revalued before Transfer)

(ii) Record Assets and Liabilities Acquired

Assets - 1 Dr
Assets - 2 Dr
To Liab - 1
To Liab - 2
To Consideration T/F Cash
To " " Asset
To " Share Capital
To Bank (Acquisition Costs)
(Being asset/Liab Recorded)

[Ratio of fair value for Consideration + Acquisition Cost]

* Allocate consideration Transferred with Acquisition Cost to Assets/Liabilities acquired in Ratio of fair values

* Apply Ind AS 36 to impair value recorded above

* Do not record Goodwill or Deferred Tax Asset due to change in fair value.

Example: A Ltd acquired following Assets and Liabilities from B Ltd

PPE	Fair value	₹ 10L
Stock	" "	₹ 2L
Debtor	" "	₹ 1L
Creditor	" "	₹ 50000

Agreed consideration was payment in cash ₹60000, Payment in Share capital of A Ltd ₹50000 and Transfer of Investment @ Fair Value was ₹ 800000 (Book value ₹700000). A Ltd paid Acquisition Cost ₹ 40000. Consequent Tax effects on changes in fair value generate D.Tax Asset ₹ 30K. Journalise assuming asset Acquisition.

(5) Non Asset Acquisition or Business Combination
(Apply Acquisition Method)

following journal Entries are passed in books of acquirer

(i) Business Combination A/c Dr (Agreed Consideration)
To Acquiree/Vendor
(Being Business acquired)

(ii) Sundry Assets A/c Dr fair value
Goodwill/GBP Dr B.F
To Sundry Liabilities fair value
To Business Combination Agreed Consideration
(Being Sundry Assets/Liabilities Acquired)

Note: In case of GBP, Review fair value + process of Calculation including NCI. If after reviewal, GBP exists then transfer to OCI then transfer to C/R otherwise we will " to C/R directly.

Note: If acquisition is less than 100%, Record NCI.

(iii) On the date of payment of Consideration
Vendor Dr Agreed Consideration
To Share capital
To Deferred Consideration
To Contingent Consideration etc
(Being amount paid to vendor)

Note: If consideration Paid is different from agreed consideration of business, it will be adjusted against "separate Transaction Cost".

Note: Consideration will be Total amount paid by Acquirer on Acquisition.

Agreed Consideration is Consideration for Business Combination

Example A Ltd acquired Division A from B Ltd. Following is Balance sheet date of B Ltd

	Division A	Division B	Total
PPE	10,00,000	500,000	1500000
Other Assets	500000	800000	1300000
Share Capital			1600000
Reserve & Surplus			400000
Liabilities	300000	500000	800000

Agreed Consideration is ₹ 1900000 and agreed to pay ₹ 1500000 in Cash and ₹ 400000 in Equity Shares

Balance sheet of A Ltd

PPE	30,00,000
Other Asset	2500000
Share Capital	2500,000
Reserve & Surplus	10,00,000
Liabilities	10,00,000

Prepare Balance sheet of A Ltd SFS assuming Asset acquisition or by applying Acquisition method.

Example A Ltd acquired 100% Share Capital of B Ltd for ₹ 50,00,000 in Cash

Balance sheet 31.3.2021	A Ltd	B Ltd
PPE	40,00,000	30,00,000
Current Assets	70,00,000	200000
Share Capital	50,00,000	20,00,000
Reserve & Surplus	20,00,000	28,00,000
Current Liab.	40,00,000	200000

PPE of B Ltd are Investment Properties. Returns are from Rental Income.

Case A : Apply Asset Acquisition & Journalise, assuming B Ltd is closed.

Case B : " Acquisition A/c " " not closed

Case C : " " " " " is closed

Example A Ltd acquired business of B Ltd by purchasing 100% shares of B Ltd for ₹ 28 lakhs. Net Assets of B Ltd were ₹ 22 lakhs. Consideration was payable in cash.
A Ltd & B Ltd were in dispute. A Ltd had created provision for ₹ 300000. A Ltd estimates fair value of this liability to be ₹ 350000 on date of Acquisition.
Journalise assuming B Ltd is closed down.

⑥ Accounting Treatment for "Separate Transaction Cost"

Sometimes acquirer may have pre existing Relationship with acquiree on date of acquisition. Such transactions are dealt as follows

Step 1 Revalue such existing pre existing relationship Asset/Liability in books of acquirer at Fair value. Difference in Profit/Loss.

* In case of Reacquired Rights, such asset/liability should be brought upto
- Amt of Favourable/Unfavourable Contract measured as per market

OR

- Settlement Amt of Contract

whichever is lower.

Step 2 : While calculating Agreed Consideration/PC for BC reduce/Add STC at Fair value calculated above.

Step 3 : Eliminate STC

STC	or	Liabilities
To Assets		To STC

Examples of STC : Common debts /Receivable/Payable
: Reacquired Rights
: Provision for disputes

⑦ Consideration

	Fair value of Assets transferred (cash/ Asset)	xxx
+	" " Share Exchange	xxx
+	P.Value of Deferred Consideration (other financial liab)	xxx
+	Fair value of Contingent Consideration (other Noncurrent liab)	xxx
+	" " " " - Payable in Equity	xxx
+	" " Share based Awards	xxx
	Consideration	xxx
± STC	[Assets written off + / liab cancelled −]	xxx
	Agreed Consideration / PC for BC	xxx

Example PC ₹ 10,00,000

A Ltd took B Ltd Land ₹ 5 lakhs
Plant ₹ 6 lakhs
Debtors ₹ 50000
creditors ₹ 20000

A Ltd had debtors ₹ 10000 Receivable from B Ltd
Journalise

Example A Ltd acquired B Ltd and agreed to pay ₹ 10L in cash to shareholders of B Ltd, ₹ 20000 in cash after 4 years ₹ 300000 in cash after 3 year if EBIT of A Ltd becomes true
Discount Rate 10% (WACC of A Ltd). Fair value of Contingent Consideration ₹ 35000.
A Ltd also agreed to issue 3 shares for every 5 held.
No of shares of B Ltd 50000. Fair value of share of A Ltd 12/=
A Ltd was in dispute with B Ltd and expected to pay ₹ 50000 as damages. Fair value of such damages as today ₹ 60000
A Ltd had provision for ₹ 50000.
Also A Ltd has receivable ₹ 10000 from B Ltd due to goods supplied.
g.N.A of B Ltd are ₹ 500000.
Acquisition Related Cost paid by A Ltd ₹ 20000
Journalise for A Ltd

(8) Journal Entries

(i) Business Combination PC for BC
To Vendor
(Being Business combined)

(ii) Assets A/c Dr (should meet definition of Asset)
Reacquired Assets (FV of Balance Term)
Research Assets Dr
Indemnification Assets Dr
Asset held for sale Dr (FV less cost to sell)
Intangible Asset Dr (meet Ind AS 38)
To Employee Benefits
To Contingent liab or Provision
To Liability (meet definition of liab)
To Business Combination
(Being Business assets & liab combined)
* Diff is Goodwill / GBP
* create DTA / DTL above items

(iii) Vendor A/c Dr
STC Dr (A)
To Cash
To Share capital
To Security Premium
To deferred Consideration
To Contingent " @FV
To " " Equity
To Share based Awards
Being vendor settled
* STC will be closed with Asset to be written off or
liab " " cancelled

(iv) Acquisition cost Dr
To P/L
Being expense paid
* It will be written off in P/L

(9)

Contingent Consideration (May or may not be paid)

- Contingent Consideration is Payable to shareholder who is Employee and Condition of Compliance is to remain in Employment apart from other Condition ⇒ It is not Contingent Consideration; It is Share Based Award

- Contingent Consideration is Payable to Employee, who is not shareholder and has Condition to Remain in Employment apart from other condition → Treat ESOP (Ind AS 102) if Payable in Shares; Treat EB (Ind AS-19) if Payable in Cash

- Contingent Consideration without Condition to remain in Employment
  - Payable in Cash → Other NCL
    - Remeasure through P/L @FV
    - Each year/Period
  - Payable in share
    - Fixed Amt Payable in share ⇒ Financial Liab; Remeasure through P/L @FV
    - Fixed number ⇒ Equity; Do not Remeasure

Example A Ltd acquired B Ltd, whose shareholders are Mr B and Mrs B. A Ltd agreed to pay ₹50 Lakh in cash on date of acquisition. Other terms are

(i) If Mr B remain in Employment for next 3 years, then A Ltd will in cash ₹ 100000 and 15000 shares of A Ltd. EBIT should also increase by 2X.

(ii) M is another Employee in B Ltd and is considered KMP. A Ltd agreed to issue 5000 shares and ₹ 100000 in cash after 5 years, if M remain in Employment. Also fair value of shares of A Ltd should be ₹90 or more at that time.

(iii) A Ltd will pay ₹500000 in cash if EPS of A Ltd exceeds ₹20. This will be paid to shareholders of B Ltd after 3 year. Fair value of consideration is ₹100000.

(iv) A Ltd will pay ₹800000 to shareholders of B Ltd in form of its own shares if A Ltd net Assets exceed ₹100 Cr after 5 years. Share will be issued at market price. Fair value of consideration on date of Acquisition is ₹ 200000

(v) A Ltd will issue 30000 share of A Ltd to shareholders of B Ltd if it is able to secure Gov. licence. Such issue will be after 3 yr. Fair value of this consideration is ₹90000

Analyse

(10) Treatment of Share Based Awards (already issued by Acquiree)

(i) If upon acquisition, acquirer issues New awards to Employees which are not Replacement Awards, these are not dealt by Ind AS-103. (Dealt by Ind AS-102)

(ii) If acquirer issues New Awards which are in nature of Replacement Awards

OR

Acquirer amends/modify Existing Award held by Employee

then

apply following steps

Step 1 Calculate Value of Awards to be included in P.C/COST

$$= \frac{\text{Fair value of original Awards on Date of Acquisition} \times \text{Expired Period}}{(\text{original vesting Period or Revised vesting Period}) \text{ Lower}}$$

* If vesting Period is
- Increased by Acquirer ⇒ Consider Increased Period
- Decreased " " ⇒ Consider original Period

Step 2 Post Combination Service Cost will be dealt by Ind AS-102

It will be calculated as follows

Fair value of Amended Award / Replaced Award on Date of Acquisition	XXX
Less value Considered in PC	XXX
Post Combination Cost	XXX

This will be allocated in post Combination Vesting Period.

Example — Altd acquired Bltd and agreed to issue
40000 Equity Share fair value 25
Rs 30000 in Cash on DOAcquisition.

Bltd had share based awards which were modified by Altd on Acquisition
Fv of original Awards on grant date ₹ 100000
" " " " " DOA ₹ 150000
original vesting Period 6years, which was increased to 7years on DOA
Employee had already performed for 3years on DOA
Journalise

(11) Recognition and classification principles for INA
(i) While recognising Assets and Liabilities acquired, acquirer should verify that such items meet definition of Asset/Liability on date of acquisition
(ii) Such Identifiable Net Assets should be recorded at fair value on DOA
(iii) Exceptions exist on Recognition/measurement of Asset/Liab (IndAS 103)

(a) If asset is Held for sale on DOA by acquirer, such asset should be measured at fair value less cost to sell.
(b) Employee Benefits (Provision for Gratuity etc) should be measured as per Ind AS-19
(c) Leased Assets should be recorded at values specified by IndAS 116. Such assets should be recorded along with lease liability.
(d) Contingent Liability + Indemnification Asset
- Contingent Liab are in nature of Possible obligation or Present obligation which can't be measured or does not have outflow of Resources.

* IndAS 103 requires to Record such Contingent Liability as "Provision for Contingent Liab at fair value on DOA"
* If any recovery/Indemnification asset exists, then record such asset at Fair value on Date of Acquisition but it cannot exceed Provision for Contingent Liab made

(e) Record Research assets @ fair value. Though acquiree may have written off Research, acquirer should record them at fair value (see point 13 also)

Example A Ltd acquired B Ltd on 31/3/21 when Balancesheets are as follows

	A Ltd	B Ltd
PPE	30,00,000	1500000
License Rights from A Ltd	-	500000
Investment Property	10,00,000	1500,000
Stock	600000	700000
Debtors	1100000	500000
Cash & Bank	20,00,000	10,00,000
Share capital	40,00,000	20,00,000
Reserves & surplus	1500000	10,00000
NCL Provision for leave salary	600000	200000
Unamortised licensefee	500000	-
Current Liab	1100000	2500000

Additional Information

(i) Property of B Ltd is to be sold by A Ltd on acquisition. It will incur ₹10000 as cost to sell.

(ii) License Rights have fair value ₹900000, whereas if licence is cancelled settlement cost would be 600000.

(iii) B Ltd has not recorded contingent liability for ₹500000 due to its non measurement of present obligation. Fair value of liability is ₹1,60,000. B Ltd had agreed to indemnify A Ltd upto loss of ₹50000. B Ltd has not recorded Brand ₹100000, customer list ₹50000 and inhouse Research ₹80000.

(iv) Fair value of Assets / Liab of B Ltd

PPE	₹ 17,00,000
Inv Property	1800,000
Stock	800000
Debtors	400000
Provision for leave salary	300000 (value as per Ind AS-19 is ₹250000)
Current Liab	2400000

(v) A Ltd granted Replacement Award to one of Employee of B Ltd whose fair value was ₹ 300000. Fair value of original Award ₹200000. It was granted 2 years ago and had vesting period of 5 years, which remained unchanged.

(vi) A Ltd agreed to issue 400000 share on DOA @ 19 per share. It agreed to pay ₹ 100000 now and ₹ 500000 after 5 years. A Ltd will also issue 30000 Equity Shares if EBIT is ₹ 1cr after 3 years. Fair value of Contingent Consideration is ₹ 200000

Prepare new Balancesheet of A Ltd   Case A   B Ltd is closed
                                       Case B   " " Not " , Consolidated B/S of A Ltd.

(12) Classification of Assets and Liabilities acquired

(i) Acquirer should classify its Assets/Liab acquired in B. Combination.

(ii) For this purpose facts and circumstances on Date of Acquisition should be considered by acquirer.

Examples of classification

- Assets which are being used by acquiree may be classified as Held for Sale by acquirer.
- Investments at FVTPL / FVTOCI
- Classification of Hedge (Cash Flow Hedge or Fair value Hedge)

(iii) Exceptions where acquirer must follow classification of acquiree

- Where acquiree is Lessor and classification is made as Financial Lease / operating lease by acquiree.
- Insurance Contracts as per Ind AS-104

(13) Treatment of Intangible Assets acquired in Business Combination

(i) Acquirer should recognise, separately from G/W, all other identifiable Intangible Assets.

Identifiable means separable from Entity + can be sold Rented or Exchanged. If any right is in nature of Contractual legal right (Govt licence which cannot be sold/Exchanged/Rented) it is also considered separable.

* It is possible that acquiree has not recorded it in its Books. (Brands etc)

(ii) Inhouse Research of Acquiree is considered an asset for acquirer. Subsequent Research will not be capitalised till development stage begins.

We always assume recognition conditions of Ind AS-38 are satisfied.

(14) Measurement period Concept

Acquirer is seeking information about facts & circumstances on DOA for calculating Fair value of Assets and Liabilities

- And that information has been obtained fully on DOA
  - ↓ Calculate Correct fair value
- And that information is not available fully on DOA
  - ↓ Calculate Provisional fair value and use it in INA / Journal Entries. Calculate G/W / GBP
    - Later By Balance sheet date such information is obtained fully
      - ↓
      - Revise Provisional fair value to Correct fair value
      - G/W or GBP may change
      - Deferred Tax Asset/Liab may change
      - Consequential Adjustment B'ce dep may arise
    - Later on By Balance sheet date such Info is not obtained
      - ⇓ Give disclosure in Notes that FV of certain Asset/Liab is Provisional and G/W/GBP based on it
      - ⇓
        - Later information is obtained within 12m of DOA
          - ↓
          - Revise fair value to correct fair value
          - G/W / GBP may change
          - Deferred Tax Asset/Liab may change
          - Consequential Adjustment may arise
          - Give Disclosure in upcoming DIS about this change
        - Information can't be obtained or Not obtained within 12m of DOA
          - ↓
          - Freeze Provisional fair value as Correct fair value
          - Now these are final fig.
          - * If you want to change fair value later on, Ind AS-103 does not allow, but Ind AS-8 Change in Estimate is allowed. But G/W GBP DTA/DTL won't change.

* New Information is obtained, which was NOT existing on DOA, such information may change fair value but it is not covered by Ind AS 103. It is dealt by Ind AS-8. Hence above Concept applies if Information was existing on DOA, not known to Acquirer.

15. Deferred Tax Asset/Liab on Business Combination

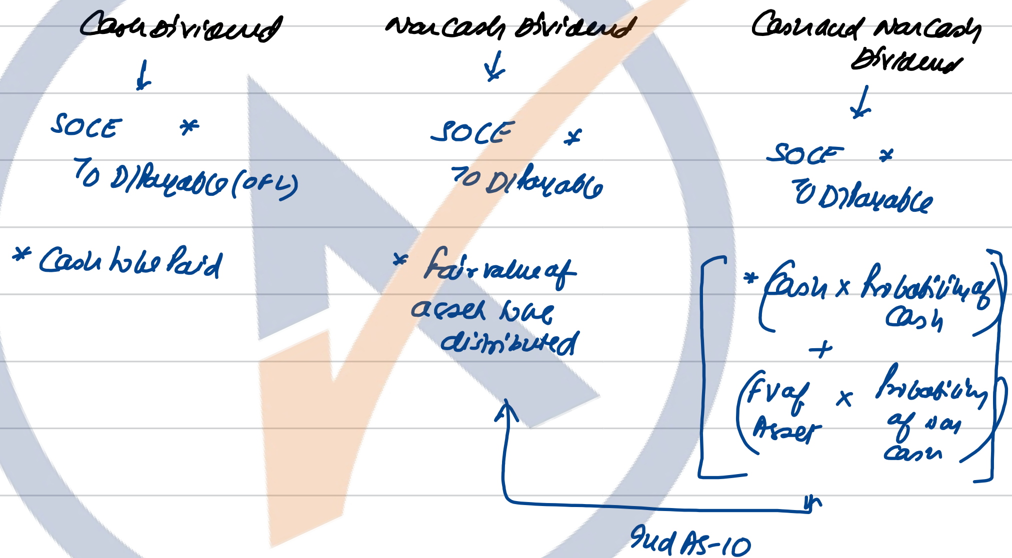
(i) Acquirer should calculate DTA/DTL arising on B.C on DOA
(ii) Do not consider DTA/DTL of Acquiree
(iii) Consider Tax Rates expected to apply on Temporary Diff

Temp Diff = CA − TB
TB for Asset = Future Deduction
TB " Liab = CA − Future Deduction
" for non Taxable Asset = CA

16. Dividend Distribution dealt by Ind AS-32, Ind AS 105 and 10

(i) Dividend is proposed - No Entry -

(ii) Dividend is declared (Ind AS-32)



If dividend is payable in Non Cash, then such assets to be distributed should be shown in B/S as Assets held for Distribution. No further depreciation. Remeasure them at 'fair value less Cost to sell'. Then at each B/S date remeasure " " fair value less CTS or CA whichever is lower. Change in P/L A/c

(iii) upon distribution

Cash distribution	Non Cash distribution
Dividend Payable Dr	Revalue Asset @ FV
To Bank	• Asset Dr
(Being Amt Paid)	To P/L
	• Adjust Dividend Payable
	SOCE
	To D/Payable
	(upto FV of Asset)
	• Pay cost of distribution
	P/L
	To Bank
	• Pay Dividend
	D/Payable Dr
	To Asset

Example A Ltd wants to pay dividend to its 10000 shareholders @ 2/= per share. ON 31·12·2021 it proposed Dividend. It declared it on 20/3/21 It was paid on 1/5/21

Example A Ltd has two shareholders Ram and Shaw, A Ltd declared on 20/2/21, that it will distribute Dividend by transfer of Building to shareholders.
Book value of Building on 1/4/20 was ₹10,00,000 (Dep SLM 10 yr life)

Fair value of such Building on 20/2/21 was 9,00,000. Estimate Cost to distribute 10000.
On 1/5/21 Building was transferred to shareholders
Actual cost of distribution ₹8000
Fair value of Building ₹8,00,000
Prepare Ledgers

(17) Demerger - without Common Control

Step (i) Identify Demerger
- New company will be formed
- to take over certain Assets/Liabilities of Existing Co
- + consideration is paid to Shareholder of Existing Comp.

New Company is called Resultant Company
Existing " " " Demerged Company

Step (ii) check Common Control

If Resultant Company and Demerged Company effectively remains under Control/Joint control of same party, then apply Appendix - C of Ind AS-103. Otherwise apply Step 3

(iii) Step 3 Accounting Treatment
Resultant Company → Apply Acquisition method of Ind AS-103
Demerged " → Consider as Non Cash Dividend Distribution

(18) Appendix-C Common Control Transactions (CCT)

Whenever Entity or business are being combined, remain effectively under Control or Joint Control of same party as earlier, it is called CCT. Such transaction should not be transitory in nature

(i) Transfer Asset/Liability/Reserves from transferee Company at Book value. Difference is recorded as capital Reserve. Sometimes consideration is receivable, it should also be recorded.

(i) Journal - Seller Company

Liabilities Dr B.V
Reserve + Surplus Dr B.V
Buyer Dr Agreed Consideration
To Assets B.V
(Being Assets/Liab. t/f)

* Difference in Capital Reserve

(ii) Cash/Investment Dr
To Buyer Company
(Being P.C realised)

NOTE Journal Entries by Buyer Company

(i)
Assets A/c Dr B.V
To Liabilities B.V
To Vendor Co P.C
To Reserves & Surplus B.V
(Being Asset/Liab/Reserve takeover)

* Difference in Capital Reserve

(ii) Vendor A/c Dr
To Share Capital
To Security Premium
To Cash
(Being amt paid)

Above method is called "Pooling of Interest Method"

* Transitionary means
- Acquisition of business and
- Immediately transferring it to another group company under CCT.

These are not considered as CCT. Apply Acquisition method

* Common Examples of CCT (a) merging of subsidiary with Parent
(b) " " " " " another subsidiary
(c) creation of Direct/Indirect subsidiary through Demerger etc

Example Balance sheet of X Ltd on 31.3.21

PPE	10,00,000
Investments	700000
C. Assets	800000
Share capital	1200000
Other Equity	900000
Current Liability	400000

X Ltd has division A + B. Net Assets of Division A are

PPE	600000
Invt	300000
C. Assets	500000
C. Liab	100000

Fair value of Division B

PPE	450000
Invt	300000
C. Asset	220000
C. Liab	300000

Division B was transferred to new company Y Ltd which agreed to issue share capital for ₹ 30000.

Cost of Transfer incurred by X Ltd 10000
" " " " Y Ltd 6000

Share were issued to shareholder of X Ltd and none of shareholders control X Ltd

Prepare B/S of X Ltd, Y Ltd along with Journal

Example Balance sheet 31.3.21

	P Ltd	S Ltd
PPE	20,00,000	10,00,000
Invt in 80% S Ltd	150000	-
C. Assets	10,00,000	500000
Share capital (10)	2500000	800000
Other Equity	100000	200000
C. Liability	100000	500000

Share were acquired by P Ltd on 1/4/20, when Balance in R/S of S Ltd were ₹120000.

S Ltd had two Divisions X + Y. Details of Y are as follows

	B.V	F.V
PPE	400000	500000
CA	300000	300000
CL	100000	100000

Division was transferred to KLtd, newly formed Company. Consideration was paid to members of SLtd in form of Share Capital ₹90000.

Prepare CBIS 31.3.21

(19) Reverse Acquisition

(i) Sometimes acquirer identified legally may not be accounting acquirer (i.e. real acquirer). This situation is considered as Reverse Acquisition.

This is generally in cases where small entities acquire large Entities in legally structured acquisitions

following steps are generally applied

Step 1 Problem of Identification for Reverse Acquisition.

- It may be explicitly mentioned in Question or
- It should be identified.

(Hint: Small acquires large)

We should calculate Relative size of shareholdings Post combination

	No of shares	%
Legal Acquirer	xxx	xx
Legal Acquiree	xx	xx

(Accounting Acquirer will generally be Entity holding bigger % here)

* other factors should also be considered apart from Relative size. There can be

- Presence of large minority shareholder
- Agreement to govern financial/operating matters of Entity
- Appointment of KMP
- Power to compose governing Body etc

Step 2: Once it is identified, that Reverse Acquisition Exists following entries are journalised. Assuming Nil Balances in all ledgers Balance of legal Acquirer

Sundry Assets Dr   Accounting Acquirer @ Book value
  To Sundry Liab   "   "   "   "
  To R/surplus   "   "   "   "
  To Share capital   "   "   "   "
(Being accounting acquirer recognised @ Book value)

Step 3 Purchase Consideration: It will always be equal to fair value of Accounting Acquiree. Any consideration given in Q will be ignored.

Step 3 Journal Entries for Acquisition
  Sundry Assets Dr   @ Fair value of Accounting Acquiree
    To S. Liab   "   "   "
    To Vendor   "   "   "
  (Being S/Liab acquired)
  * Difference in G/W or GBP

  Vendor A/c Dr
    To Share capital
    To S/Premium
  (Being P.C Paid)

* If Question specific, new number of shares in Legal Acquirer, then do NOT recognise S/Premium in above Entry. Rather change paid up value + fair value of shares

$$\text{No of share to be issued in above Entry} = \frac{\text{P.C}}{\text{Fair value of shares of Accounting Acquirer}}$$

Note: Effect of Reverse Acquisition on EPS
- Consider No. of shares held by Accounting Acquirer as from Beginning of Period for calculating EPS.
- Consider No of shares held by Legal Acquirer as from Date of Acquisition for calculating EPS.

(20)

1st time Application of B-Combination Standard

During Consolidation

In SFS

Investments in Subsy, Associate J.V should be taken @ Cost or Fair Value

↓

Make selection for Policy of Cost or F.V

- Selected Policy is F.V
  ↓
  Calculate F.V on Date of Transition. It is considered F.V under 109. Any difference in Retained Earnings
- Selected Policy is Cost (options)
  - Use F.V on Date of Transition as cost. Diff in Retained Earnings
  - Use Cost of Invts taken in igaap as Cost
  - Calculate Cost Retrospectively

During Consolidation

Entity has choice to apply Ind AS 103 on Prospective basis or Retrospective basis (own selected date)

- -ve NCI
  - Prospective basis ↓ Ignore -ve NCI
  - Retrospective basis ↓ Calculate NCI on Retro Date
- Contingent Consideration
  - If Retro opted ↓ Calculate it and Record Actual Value
  - If Prospective ↓ Ignore Contingent Consideration. Transfer it to P/L when paid.
- Deemed Cost Exemption PPE
  - If Retro - Calculate actual Cost of PPE. No Deemed Cost Exemption
  - If Prospective - Use Deemed Cost Exemption for PPE

Other Issues

↓

(i) If Entity was Not Subsy under IGaap, but it is subsy as per Ind AS → Consider DOTransition as Date of Acquisition. Start Consolidation on Prospective basis

(ii) If Parent follows Retro Basis or Prospective basis then all subsidiaries should follow Parent Basis

* If subsidiary has Earlier applied any basis and later Parent Consolidates, then Subsy is not required to follow Parent.

(21) Disclosures given under Ind AS-112

(a) Disclosure is needed for Significant assumption and Judgement applied in identification of
- Control
- Significant Influence
- Joint Arrangement
- Investment Entity.

(b) Name of Subsidiary, Associate, Joint Arrangement + place of Incorporation
- % ownership held
- Changes in % "
- Loss of Control in subsidiary
- Risk involved in Subsidiary, Associate, J. Arrangement.
- Restrictions on Transfer of Shares of Subsy, Associate or Joint Arrangement
- NCI on consolidation
- Effect on gain/Loss due to Consolidation.

(c) If Investment Entity status is changed to/from Invt Entity then disclose Reason of such change, effect of such change on Profit/loss & net assets.

(d) Unconsolidated Entities should be disclosed.