ED/AS110/2022/16

Exposure Draft

Accounting Standard (AS) 103

Accounting for Amalgamations

Last date for the comments: February 3, 2022

Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 103, *Accounting for Amalgamations*

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, are applicable to the specified class of companies. Accounting Standards notified under Companies (Accounting Standards) Rules 2021, and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, it has been decided to revise the Accounting Standards. Accordingly, the Accounting Standards Board of ICAI has initiated the process of revision of these standards which will be applicable to the entities to whom Ind AS are not applicable. While formulating these Standards, it was decided to maintain the consistency in the numbering of AS with Ind AS numbering.

In the above background, the ASB has finalised AS 103, *Accounting for Amalgamations*, taking AS 14, *Accounting for Amalgamations,* notified by MCA as the base. Major differences between draft of AS 103 and Ind AS 103, *Business Combinations*, are included in the Appendix 1 of the Standard. Major differences between draft of AS 103 and AS 14 are included in the Appendix 2 of the Standard.

This is the Exposure Draft of the AS 103, *Accounting for Amalgamations*, issued by the ASB, for comments.

The ASB invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment:
*Comments can be submitted using one of the following methods so as to receive not later than **February 3, 2022.***

Electronically:	click on http://www.icai.org/comments/asb/to submit comments online
Email:	Comments can be sent at commentsasb@icai.in
Postal:	Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Accounting Standard (AS) 103

Accounting for Amalgamations

[This Accounting Standard includes paragraphs set in ***bold*** *type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*

Objective

1. This standard deals with accounting for amalgamations (including business acquisitions) and the treatment of any resultant goodwill or reserves.

Scope

2. This standard does not deal with:

(a) accounting for the formation of a joint venture in the financial statements of joint controlled entities; and

(b) acquisition of a group of assets that does not constitute a business. In such cases, the entity shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in AS 38, *Intangible Assets*) and liabilities assumed. The cost of the group of assets shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

Definitions

3. The following terms are used in this standard with the meanings specified:

Amalgamation means:

i. merger of one entity into another entity where the identity of the merging entity is lost;
ii. obtaining control of the entity by another entity without losing the identity of the transferor; and
iii. transfer of one or more businesses of the entity to another entity without losing the identity of the transferor.

Amalgamation in the nature of merger means amalgamation involving entities or businesses in which all the amalgamating entities or businesses are ultimately controlled by the same party or parties both before and after the amalgamation, and that control is not transitory.

Amalgamation in the nature of purchase is an amalgamation which does not meet the definition of amalgamation in the nature of merger.

Business includes a segment[1] or segments, or a component or components (such as division, branch or geographical area of operation).

Consideration for the amalgamation means the aggregate of the equity shares and other

[1] Please refer AS 108, Segment Reporting.

securities issued and the payment made in the form of cash or other assets by the transferee entity.

Control is as defined in AS 110, *Consolidated and Separate Financial Statements*.

Fair value is the value as defined in AS 113, *Fair Value Measurements*

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

Transferee means an entity which acquires the control of another entity or its business(es), i.e., transferor.

Accounting for Amalgamations in nature of purchase

4. An entity shall account for amalgamations in the nature of purchase by applying the purchase method.

The Purchase Method

5. Under the purchase method, the transferee shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the transferor. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor entity. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 6 and 7.

Recognition conditions

6. To qualify for recognition as part of applying the purchase method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements issued by the Institute of Chartered Accountants of India at the date of amalgamation. For example, costs the transferee expects but is not obliged to incur in the future to effect its plan to exit an activity of transferor or to terminate the employment of or relocate transferor's employees are not liabilities at the date of amalgamation. Therefore, the transferee does not recognise those costs as part of applying the purchase method. Instead, the transferee recognises those costs in its post-amalgamation financial statements in accordance with other AS.

7. In addition, to qualify for recognition as part of applying the purchase method, the identifiable assets acquired and liabilities assumed must be part of what the transferee and the transferor (or its former owners) exchanged in the amalgamation rather than the result of separate transactions.

Measurement principle

8. The transferee shall measure the identifiable assets acquired and the liabilities assumed at their fair values at the date of amalgamation.

9. For each amalgamation, the transferee shall measure at the date of amalgamation components of non-controlling interest in the transferor that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) fair value; or

(b) The present ownership instruments' proportionate share in the recognised amounts of the transferor's identifiable net assets.

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

Consideration

10. The consideration for the amalgamation may consist of **equity shares and other** securities, cash or other assets. In determining the value of the consideration, an assessment is made of the fair value of its elements.

11. Many amalgamations recognise that adjustments may have to be made to the consideration in the light of one or more future events. When the additional payment is probable and can reasonably be estimated at the date of amalgamation, it is included in the calculation of the consideration. In all other cases, the adjustment is recognised as soon as the amount is determinable [see Accounting Standard (AS) 10, *Events Occurring After the Reporting Period*].

Date of Amalgamation

12. The transferee shall identify the date of amalgamation, which is the date on which it obtains control of the transferor. The date on which the transferee obtains control of the transferor is generally the date on which the transferee legally transfers the consideration, acquires the assets and assumes the liabilities of the transferor – the closing date. A transferee shall consider all pertinent facts and circumstances in identifying the date of amalgamation.

Recognising and measuring goodwill or capital reserve

13. The transferee shall recognise goodwill as of the date of amalgamation measured as the excess of (a) over (b) below:

(a) the aggregate of:
  - **(i) the consideration transferred measured in accordance with this AS, which generally requires fair value at the date of amalgamation;**
  - **(ii) the amount of any non-controlling interest in the transferor measured in accordance with this AS; and**

(b) the net of the amounts at the date of amalgamation of the identifiable assets acquired and the liabilities assumed measured in accordance with this AS.

In case of excess of (b) over (a), the same shall be recognised as capital reserve.

Treatment of Goodwill Arising on Amalgamation

14. Goodwill arising on amalgamation represents a payment made in anticipation of future income and it is appropriate to treat it as an asset to be amortised to income on a systematic basis over its useful life. Due to the nature of goodwill, it is frequently difficult to estimate its useful life with reasonable certainty. Such estimation is, therefore, made on a prudent basis. Accordingly, it is considered appropriate to amortise goodwill over a period not exceeding ten years unless a longer period can be justified.

15. Factors which may be considered in estimating the useful life of goodwill arising on amalgamation include:

(a) the foreseeable life of the business or industry;

(b) the effects of product obsolescence, changes in demand and other economic factors;

(c) the service life expectancies of key individuals or groups of employees;

(d) expected actions by competitors or potential competitors; and

(e) legal, regulatory or contractual provisions affecting the useful life.

Treatment of Reserves

16. The identity of the reserves, other than the statutory reserves dealt with in paragraph 17, is not preserved.

17. Certain reserves may have been created in the financial statements of the transferor company in terms of the requirements of various statutes which require that the identity of the reserves should be preserved for a specified period. Though, normally, in an amalgamation in the nature of purchase, the identity of reserves is not preserved, an exception is made in respect of reserves of the aforesaid nature (referred to hereinafter as 'statutory reserves') and such reserves retain their identity in the financial statements of the transferee company in the same form in which they appeared in the financial statements of the transferor company, so long as their identity is required to be maintained to comply with the relevant statute. This exception is made only in those amalgamations where the requirements of the relevant statute for recording the statutory reserves in the books of the transferee company are complied with. In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.

Balance of Retained Earnings

18. Under 'amalgamation in the nature of purchase', the balance of retained earnings appearing in the financial statements of the transferor company, whether debit or credit, loses its identity.

Disclosures

19. The following disclosures shall be made in the first financial statements following the amalgamation:

(a) names and general nature of business of the amalgamating entities; and
(b) date of amalgamation for accounting purposes;

20. The following additional disclosures shall also be made in the first financial statements following the amalgamation:

(a) consideration for the amalgamation and a description of the consideration paid or contingently payable; and

(b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

Accounting for Amalgamation in nature of merger

21. Amalgamation in the nature of merger will include transactions, such as transfer of subsidiaries or businesses, between entities within a group.

22. The extent of non-controlling interests in each of the combining entities before and after the amalgamation in the nature of merger is not relevant to determining whether the amalgamation involves entities under common control. This is because a partially-owned subsidiary is nevertheless under the control of the parent entity.

23 The fact that one of the combining entities is a subsidiary that has been excluded from the consolidated financial statements of the group in accordance with AS 110 is not relevant to determining whether an amalgamation in the nature of merger involves entities under common control

24. An entity can be controlled by an individual, or by a group of individuals acting together under a contractual arrangement, and that individual or group of individuals may not be subject to the financial reporting requirements of Accounting Standards. Therefore, it is not necessary for amalgamating entities to be included as part of the same consolidated financial statements for amalgamation to be regarded as one having entities under common control.

25. A group of individuals are regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.

26. Amalgamations in the nature of merger shall be accounted for using the pooling of interests method.

27. The pooling of interest method is considered to involve the following:

    (i) The assets and liabilities of the combining entities are reflected at their carrying amounts.
    (ii) No adjustments are made to reflect fair values, or recognise any new assets or liabilities. The only adjustments that are made are to harmonise accounting policies.
    (iii) The financial information in the financial statements in respect of prior periods should be restated as if the entity/business was under common control from the beginning of the preceding period. However, if the entity/business is under common control after the beginning of the preceding period, the prior period information shall be restated only from that date.

28. The consideration for the amalgamation may consist of equity shares, other securities, cash or other assets. In determining the value of the consideration, equity shares and other securities to be settled other than in cash shall be recorded at nominal value, other securities and assets shall be considered at their fair values.

29. The balance of the retained earnings appearing in the financial statements of the transferor is aggregated with the corresponding balance appearing in the financial statements of the transferee. Alternatively, it is transferred to General Reserve, if any.

Treatment of Reserves

30. The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor. Thus, for example, the General Reserve of the transferor entity becomes the General Reserve of the transferee, the Capital Reserve of the transferor becomes the Capital Reserve of the transferee and the Revaluation Reserve of the transferor becomes the Revaluation Reserve of the transferee. As a result of preserving the identity, reserves which are available for distribution as dividend before the amalgamation would also be available for distribution as dividend after the amalgamation. The difference, if any, between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to reserve (capital reserve in case of credit balance) and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes.

Disclosures

31. The following disclosures shall be made in the first financial statements following the amalgamation:
    (i) names and general nature of business of the amalgamating entities;
    (ii) the date on which the transferor obtains control of the transferee;
    (iii) description and number of shares issued, together with the percentage of each entity's equity shares exchanged to effect the amalgamation; and
    (iv) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

Treatment of costs related to Amalgamation

32. Costs related to amalgamation are costs the transferee incurs to effect an amalgamation (amalgamation in the nature of purchase or amalgamation in the nature of merger). Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The transferee shall account for costs related to amalgamation as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with AS 109.

Amalgamation after the Balance Sheet Date

33. When an amalgamation is effected after the balance sheet date but before the issuance of the financial statements of either party to the amalgamation, disclosure is made in accordance with AS 10, *Events Occurring After the Reporting Period*, but the amalgamation is not incorporated in the financial statements. In certain circumstances, the amalgamation may also provide additional information affecting the financial statements themselves, for instance, by allowing the going concern assumption to be maintained.

Appendix 1

Note 1: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 103, Business Combinations and the corresponding revised Accounting Standard (AS) 103, Accounting for Amalgamations.

Comparison with Ind AS 103, *Business Combinations*

1. Ind AS 103 applies to all types of business combinations (as defined in the standard). Revised AS 103 deals with amalgamation including business acquisitions. In this regard, Revised AS 103 defines business differently from the definition of business under Ind AS 103.

2. Structure of revised AS 103 is different compared to Ind AS 103, such as, AS 103 classifies amalgamation transactions into 'Amalgamation in the nature of purchase' and 'Amalgamation in the nature of Merger'. 'Amalgamation in the nature of Merger' is defined similar to the 'Common Control Business Combinations'. While Ind AS 103 deals with business combinations on the basis of whether these are under common control or not.

   Revised AS 103 prescribes accounting for amalgamations in nature of purchase using purchase method and accounting for amalgamations in nature of merger using pooling of interest method. Ind AS 103 prescribes only the acquisition method for every business combination, except for business combinations involving entities or businesses under common control which shall be accounted for using the pooling of interests method.

3. Under Ind AS 103, the goodwill is not amortised but tested for impairment on annual basis in accordance with Ind AS 36. Revised AS 103 requires that the goodwill arising on amalgamation in the nature of purchase is amortised over a period not exceeding ten years.

4. Ind AS 103 provides guidance on accounting for various aspects in detail, such as, reverse acquisitions.

5. Ind AS 103 deals with the contingent consideration in case of business combination, i.e., an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. Revised AS 103 does not provide specific guidance on this aspect.

6. Ind AS 103 requires bargain purchase gain arising on business combination to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve. Under revised AS 103, such the excess amount is recognized as capital reserve.

Appendix 2

Note 1: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between revised Accounting Standard (AS) 103, Accounting for Amalgamations and the corresponding Accounting Standard (AS) 14, Accounting for Amalgamations.

Comparison with AS 14, *Accounting for Amalgamations*

1. Revised AS 103 deals with amalgamation including business acquisitions. While AS 14 dealt with amalgamation and mergers of entities. Hence, revised AS 103 is wider in scope than AS 14. Definition of Amalgamation under revised AS 103 is also wider as compared to AS 14 since it covers transfer of business also. Revised AS 103 also defines the term ‘business’.

2. Revised AS 103 defines ‘Amalgamation in the nature of Merger’ similar to ‘Business Combinations under Common Control’ as defined in Ind AS 103. This is different compared to the definition of ‘Amalgamation in the nature of Merger’ given in AS 14.

3. Revised AS 103 prescribes accounting for amalgamations in nature of purchase using purchase method and accounting for amalgamations in nature of merger using pooling of interest method. Under AS 14, there are two methods of accounting for amalgamation: the pooling of interest method and the purchase method.

4. As per revised AS 103, the date on which the transferee obtains control of the transferor is the date of amalgamation. While, AS 14 mentions but does not define date of amalgamation.

5. Revised AS 103 requires that costs related to amalgamation to be accounted for as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with AS 109. AS 14 did not deal with the same.

6. Revised AS 103 requires the acquired identifiable assets liabilities and non-controlling interest to be recognised at fair value under purchase method. Under AS 14, the acquired assets and liabilities were recognised at their existing book values or by allocating the consideration to individual identifiable assets and liabilities on the basis of their fair values under the purchase method.

7. Revised AS 103 requires that for each amalgamation, the transferee shall measure any non-controlling interest in the transferor either at fair value or at the non-controlling interest’s proportionate share of the tranferor’s identifiable net assets. In this regard, AS 21 stated that the minority interest is the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and it is shown outside shareholders’ equity.

8. AS 103 requires that the goodwill arising on amalgamation in the nature of purchase is amortised over a period not exceeding ten years. AS 14 required that the goodwill arising on amalgamation in the nature of purchase is amortised over a period not exceeding five years.

9. AS 14 prescribed treatment of reserves specified in a scheme of amalgamation. Revised AS 103 does not deal with the same.