

## COMMENTS ON EXPOSURE DRAFT OF ACCOUNTING STANDARD (AS) 103: ACCOUNTING FOR AMALGAMATIONS

Sr. No.	Para of Exposure Draft	Comments	Suggested Wordings, if any
1	<p>As per Para 2(b), the standard does not deal with acquisition of a group of assets that does not constitute a business.</p> <p>As per Para 3, Definitions: Business includes a segment or segments, or a component or components (such as division, branch or geographical area of operation).</p>	<p>Revised AS 103 does not contain the definition of business, except as given in Para 3. It is suggested to define business specifically in revised AS 103, either by way of a new definition in Para 3, or by way of an Appendix for Defined Terms.</p> <p>Further, Application Guidance could be given in another Appendix, which covers the explanation given in Para B7 of Ind AS 103 reproduced here.</p> <p>Optional test to identify concentration of fair value, elements of business, guidance on whether an acquired process is substantive laid down in Ind AS 103 (Paras B7A to B12D of Ind AS 103) may be excluded from revised AS 103.</p>	<p><i>Business could be defined as:</i> <i>‘An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.’</i></p> <p><i>A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows (see paragraphs B8-B12D for guidance on the elements of a business):</i></p> <p><i>a) Input: Any economic resource that creates outputs, or has the ability to contribute to the creations of outputs, when one or more processes are applied to it. Examples include noncurrent assets (including intangible assets or rights to use non-current assets), intellectual property, the</i></p>

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			<p><i>ability to obtain access to necessary materials or rights and employees.</i></p> <p>b) <i>Process: Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creations of outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but the intellectual capacity of an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)</i></p> <p>c) <i>Output: The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities. However, actual existence of output is not as necessary, as is the ability of the</i></p>

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			<i>process to generate output (additional sentence introduced in RED).</i>
2	As per Para 3, Definitions: Control is as defined in AS 110, <i>Consolidated and Separate Financial Statements</i> .	The definition of control in AS 110 is partially restrictive to obtaining benefits from the entity which is being controlled. Please refer comments on Exposure Draft of AS 110 in this regard.	Please refer suggested wordings given in Comments on Exposure Draft of AS 110.
3	As per Para 3, Definitions: Consideration for the amalgamation means the aggregate of the equity shares and other securities issued and the payment made in the form of cash or other assets by the transferee entity.	The definition of consideration covers only the form of payments made but does not discuss to whom it is made.	<i>Consideration for the amalgamation means the aggregate of the equity shares and other securities issued and the payment made in the form of cash or other assets by the transferee entity to the owners of the transferor entity/business or holder of options to acquire shares in the transferor entity (additions to the paragraph in RED).</i>
4	N.A.	Revised AS 103 does not provide specific guidance on contingent consideration or on measurement period. It would be preferred to introduce the Measurement Period concept as amalgamations can spread over two reporting periods, in which case, guidance on Measurement Period would be helpful. The guidance on Measurement Period would also be selectively helpful in case of contingent consideration that materializes within the measurement period, which could then be adjusted against goodwill/capital reserves instead of impacting the post-acquisition profit.	<i>If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During</i>

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			<p><i>the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.</i></p>
5	<p>Para 30: 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.</p>	<p>Guidance needs to be given in case the purchase consideration of the transferee exceeds the share capital of the transferor. In the absence of guidance, entities may take the such difference to goodwill, which is fundamentally incorrect as goodwill cannot arise in an amalgamation between parent and/or subsidiaries.</p>	<p><i>Para 30: 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 (in case of debit balance) <b>and not goodwill</b>, (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.</i></p>

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6	N.A.	<p>Revised AS 103 draws the definition of control from AS 110 to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.</p> <p>Such a situation could give rise to reverse acquisitions also, and hence, guidance on reverse acquisitions could be included in revised AS 103.</p>	<p>Para B19 to B 27 of Ind AS 103 could be introduced in AS 103.</p>