Mergers, Acquisitions and Demergers Accounting Aspects

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WIRC – Conference on Mergers, Acquisitions & Business Restructuring – BKC, Mumbai

Business Combinations

- Whether a Business Combination or acquisition of assets and liabilities ? Renewable energy ?

- Steps
  - Identifying the Acquirer – concept of Reverse Acquisition ?
  - Determining the Acquisition Date
    - MCA Circular No. 9 of 2019 – appointed date in the scheme deemed to be acquisition date
    - ITFG Bulletin 12 Issue 8 – NCLT approves scheme with different appointed date – that date is acquisition date
  - Identifying and measuring assets, liabilities and NCI – Fair Value Accounting (Exception – Common Control) [Erstwhile concept (prior to Ind AS) – purchase price allocation (PPA)]
  - Recognising Goodwill/ Bargain Purchase (creation of Capital Reserve)

Intangible Assets

- Intangible Assets referred in Ind AS

Computer Software	Design and implementation of new processes or systems	Intellectual property	Motion picture films
Copyrights	Export quotas	Licences Statutory licences (banking)	Patents
Customer base	Fishing licences	Market knowledge	Publishing titles and mastheads
Customer lists - Only purchase of customer base	Franchises	Market share	Scientific or technical knowledge
Customer relationships	Import quotas	Mortgage servicing rights	Supplier relationships
Customer loyalty	Website		

- Fair value – importance of valuation report

Intangible Assets – Published Financials

- Annual Reports of listed Companies on other intangibles –
  - Grasim

Group Management Rights	Invstment Management Rights	Jetty Rights	Mining Reserve and Mining Rights
Order Backlog	Production Formula	Right To Manage And Operate (Manufacturing Facility)	Value In Force

  - All Cargo Logistics

Agent Relationships	Brand Name	Computer Software	Customer relationships
Marketing and Business Rights	Non - compete		

  - Adani Ports and SEZ

Port Infrastructure Rights	Right To Use Of Land	Right To Use To Develop And Operate (Port Facilities)	

Few Considerations

- Measurement period – retrospective correction in accounting – upto one year
- Contingent Liability Accounting
  - Paragraph 23 to IND AS 103 – *the acquirer recognises a contingent liability assumed in a business combination at the acquisition date* ***<u>even if it is not probable</u>*** *that an outflow of resources embodying economic benefits will be required to settle the obligation.*
- IBC Plan – Different Accounting Treatment
  - Analogy – ITFG 16, Issue 5
- Draft Guidance Note on Capital Reserve
- Point of giving effect to NCLT scheme – on receipt of substantive approvals ? Approval prior to shareholders meeting ?

Accounting for Transferor Company

- Limited guidance –general derecognition principles should be applied

- Appendix A to IND AS 10 - Distribution of Non-cash Assets to Owners

  - Accounting – akin to payment of dividend in kind by the Company to its shareholders
    - Assets distributed – consider fair value, difference as compared to carrying value – credit/debit to P&L
    - Fair value asset – treated as a dividend to shareholders

  - Application primarily for demerger accounting in the books of the demerged company

  - Exclusion – Common control business combination

Common Control Business Combination

Common Control Business Combination

- Accounting is not prescribed in IFRS
- Appendix C to IND AS 103 – only prescribes accounting for the acquirer – like the main standard
- Common Control – movement within the same group
  - Transfer of business to a JV in which entity holds 70% is not a common control business combination
- Accounting – pooling of interest method
  - The assets, liabilities and reserves (including retained earnings) to be reflected at their carrying amounts - only adjustments that are made are to harmonies accounting policies.
  - Shares issued to be recorded at nominal value, other consideration (CCD, OCD, Cash, etc.) at fair value
  - Difference to capital reserve

Few Considerations

- Control – Company is owned by a group of Individuals (say, family members) and non of the family members own more than 50%. In case of de-merger of business creating a parallel entity – whether common control ? Importance of shareholders agreement ?

- Control should not be transitory – In the process of finding a JV Partner ?

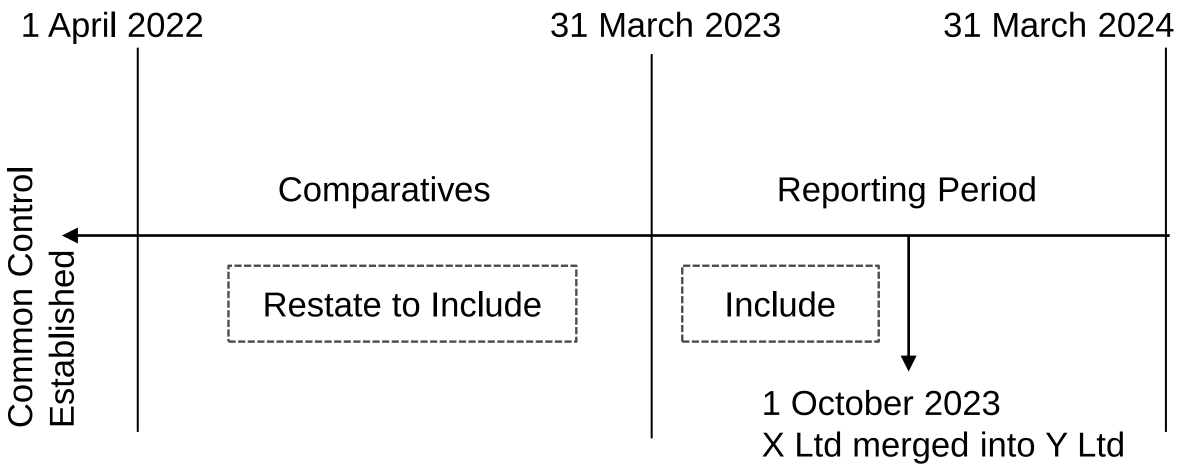
- Concept of push down accounting from the consolidated financial statement – ITFG
  - Impact on distributable profits ?

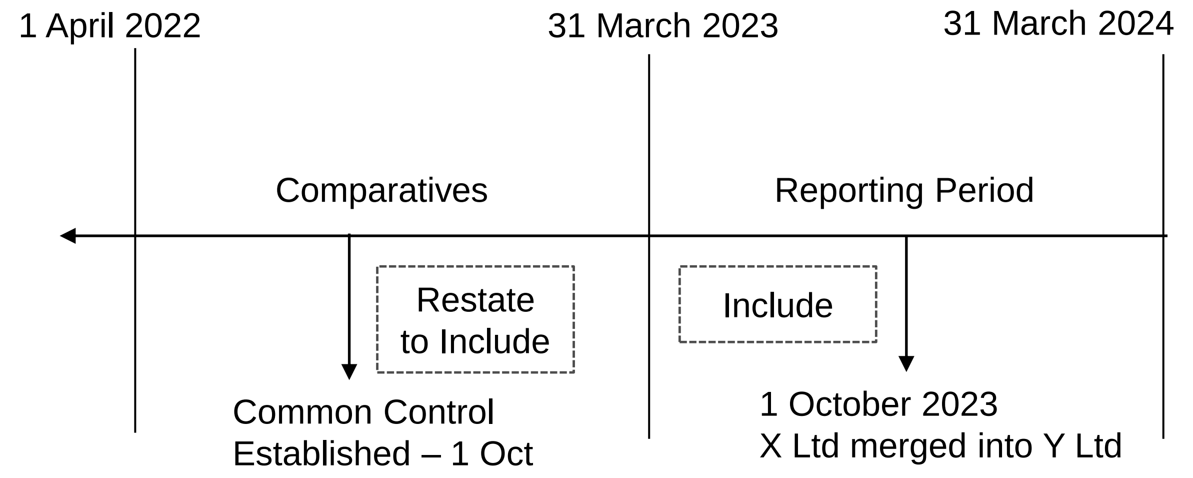
- Accounting of securities premium on issue of shares in common control business combination ?

- Demerger – identification and accounting of reserves ?

- Merger of loss-making group company – creation of DTA not recognised earlier though P&L ?

Restatement of Comparative Period – Consequential Issues

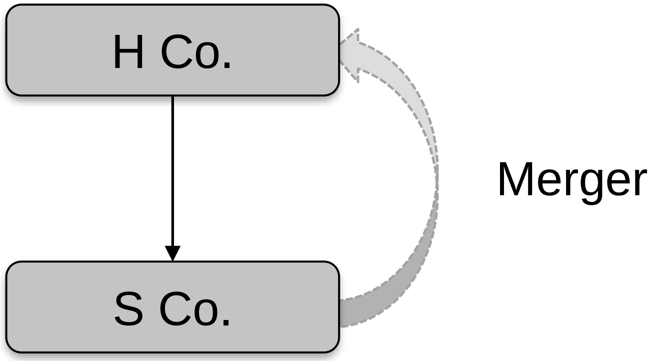




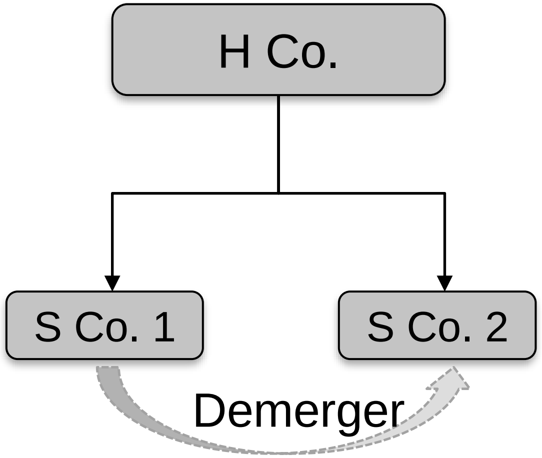
- Whether the profits prior to the date appointed date (1 October 2023) reflected in the Statement of Profit and Loss – to be considered for tax and regulatory purposes, for example –
  - Computation of book profit for MAT ?
  - Impact on creation of any statutory reserves ?

Case Study

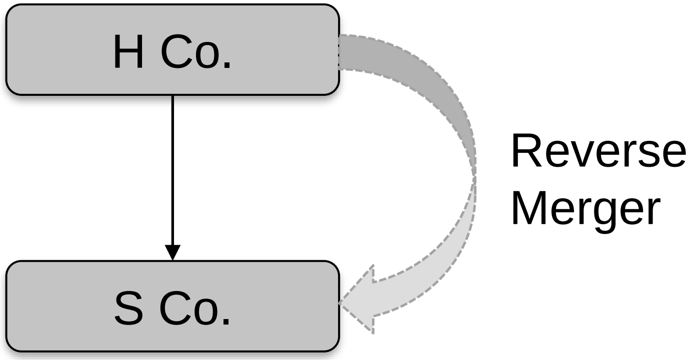
Case Study – Consolidated accounts v. Standalone accounts



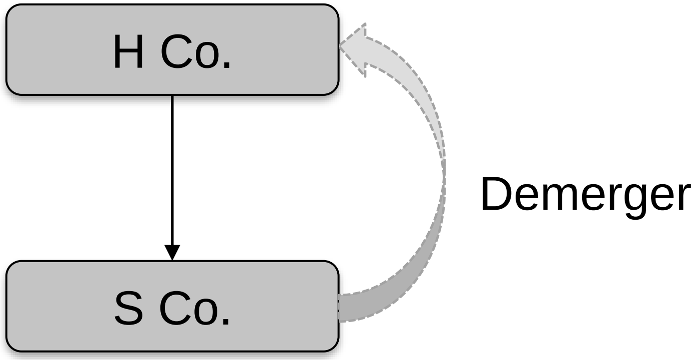
- Push down a/c



- Standalone a/c



- Push down a/c ?



- Push down a/c

Key Takeaways

- After Ind AS – Accounting has become a key consideration for evaluating any business restructuring
- Each fact matters in deciding the accounting treatment of a business combination
  - Substance over form is relevant – but so is the legal nature
- Ambiguity in accounting – divergent views prevail
- Deep dive into accounting before finalizing any re-structuring and understand, if any, position/interpretation already taken by the audit firm for their other client.
- Auditor certificate is compulsory for any scheme of amalgamation or demerger – 230 to 232 scheme can only prescribe accounting treatment in conformity with Ind AS.

Thank You

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