

Practical Approach to Reverse Acquisition



Introduction

Acquisitions- An acquisition is when one company purchases most or all of another company's shares to gain control of that company.

Reverse Acquisitions

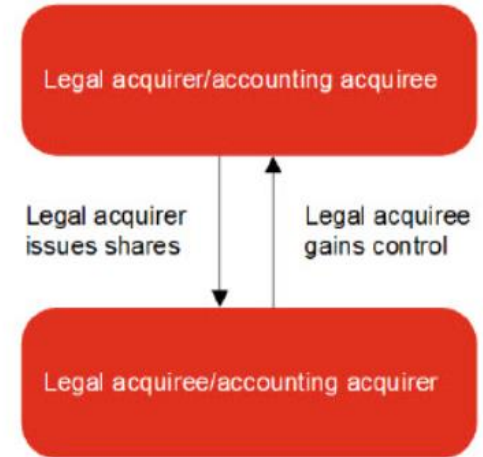
- A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting.
- The entity whose equity interests are acquired (the legal acquiree) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition.
- In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquiree. Instead, the accounting acquiree usually issues its equity shares to the owners of the accounting acquirer.

Reverse Acquisition as per IND AS 103

Reverse Acquisitions

Para B15 of IND AS “In a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called ‘reverse acquisitions’ the issuing entity is the acquiree.”

Diagram of a reverse acquisition





Important Definitions

- **Acquirer:** An acquirer is a company that obtains the rights on another company or business relationship through a merger or acquisitions.
- **Acquiree:** An acquiree is a company whose business has been taken over by another entity.
- **Legal Acquirer:** Consolidated Financial Statements are prepared in the name Legal Acquirer which issues securities

Accounting Treatment as per IND AS 103

Measuring the consideration transferred

Para B20: In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquiree. Instead, the accounting acquiree usually issues its equity shares to the owners of the accounting acquirer.

Accordingly, on the acquisition-date fair value of the consideration transferred by the accounting acquirer is based on the number of equity interests the legal subsidiary **would have had to issue** to give the owners of the legal parent the same percentage equity interest in the combined entity that results from the reverse acquisition.

Accounting Treatment as per IND AS 103

Preparation and presentation of consolidated financial statements

Para B21- Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree) but described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. That adjustment is required to reflect the capital of the legal parent (the accounting acquiree).

Accounting Treatment as per IND AS 103

Preparation and presentation of consolidated financial statements

Para B22- The consolidated financial statements reflect:

- (a) the assets and liabilities of the legal subsidiary (the accounting acquirer) recognised and measured at their pre-combination carrying amounts.
- (b) the assets and liabilities of the legal parent (the accounting acquiree) recognised and measured at their fair value.
- (c) the retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination.

Preparation and presentation of consolidated financial statements

Para B22- The consolidated financial statements reflect:

(d) **Equity-**

Amount in Equity- the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the business combination to the fair value of the legal parent (accounting acquiree).

Structure in Equity- the equity structure (ie the number and type of equity interests issued) reflects the equity structure of the legal parent (the accounting acquiree), including the equity interests the legal parent issued to effect the combination.

Accounting Treatment

In a reverse acquisition, the company issues more shares than it acquires, which results in the automatic transfer of ownership to a another company. Therefore, legal acquirer becomes accounting acquiree and acquiree becomes accounting acquirer.

All assets and liabilities **including** equity and retained earnings pertaining to accounting acquirer are transferred in carrying value to the consolidated FS.

All assets and liabilities **except** equity and retained earnings pertaining to accounting acquiree are transferred in fair value to the consolidated FS.

Goodwill- Consideration transferred less identified net assets of legal parent.

Consolidated Equity Instruments- Issued equity instruments of legal subsidiary outstanding before the business combination plus the fair value of the legal parent

Example on Reverse Acquisition

Example

BALANCE SHEET AS AT 31/03/2022 (in \$)

	A Ltd.	<u>BLtd.</u>
Assets		
Non-Current Assets	1300	3000
Current Assets	500	700
Total	<u>1800</u>	<u>3700</u>
Equity & Liabilities		
ESC	300	600
Other Equity	800	1400
Non current Liability	400	1100
Current Liability	300	600
Total	<u>1800</u>	<u>3700</u>

A Ltd acquired B Ltd and issues 150 shares for the acquisition. Prepare consol FS.

Solution

1. New Shareholding Pattern

A Ltd: Existing shares issued	100 Sh.	40%
B Ltd: Issue further shares	150 Sh.	60%
Total	<u>250 Sh.</u>	<u>100%</u>

2. Legal Acquirer- A Ltd.

Legal Acquiree- B Ltd.

3. Accounting Acquirer- B Ltd.

Accounting Acquiree- A Ltd.

(B Ltd. holds 60% shares of A Ltd. and became holding of A Ltd.)

Accounting for Reverse Acquisition

- Books of A Ltd.

A) Balance of Accounting Acquirer B Ltd. Brought in Carrying Value

NCA A/c <u>Dr.</u>	3000	
CA A/c <u>Dr.</u>	700	
To ESC A/c		600
To OE A/c		1400
To NCL A/c		1100
To CL A/c		600

Accounting for Reverse Acquisition

- Books of A Ltd.

B) Elimination of Accounting Acquiree A Ltd. from the books

ESC A/c <u>Dr.</u>	300	
OE A/c <u>Dr.</u>	800	
NCL A/c <u>Dr.</u>	400	
CL A/c <u>Dr.</u>	300	
To NCA A/c		1300
To CA A/c		500

Accounting for Reverse Acquisition

- Books of A Ltd.
C) B Ltd. Acquired A Ltd.

NCA A/c <u>Dr.</u>	1300
CA A/c <u>Dr.</u>	500

To NCL A/c	400
To CL A/c	300
To Vendor A/c (A Ltd)	1100

Consolidated FS

CONSOLIDATED BALANCE SHEET of A Ltd AS AT 31/03/2022 (in \$) (B+A)

		A Ltd.
Assets		
Non-Current Assets	(3000+1300)	4300
Current Assets	(700 + 500)	1200
Total		<u>5500</u>
Equity & Liabilities		
ESC	(600+1100)	1700
Other Equity	(1400+0)	1400
Non current Liability	(1100+400)	1500
Current Liability	(600+300)	900
Total		<u>5500</u>

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Thank You!!

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