



CHAPTER 1

Business combinations - non-common control mergers and schemes of arrangement

This article discusses key aspects relating to non-common control mergers and amalgamations through schemes of arrangement under Ind AS 103, *Business Combinations*.

Background

Mergers and amalgamations continue to be an important form of acquisitions and corporate restructuring to pursue growth, achieve synergies and realign operations. As transaction structures become increasingly nuanced, the accounting for business combinations under Ind AS 103, *Business Combinations*, continues to involve significant judgement.

In India, mergers and amalgamations are commonly implemented through schemes of arrangement under Sections 230 to 232 (and Section 233 applicable for merger or amalgamation of certain specified companies) of the Companies Act, 2013. Depending on the nature and structure of the transaction, schemes require approval of the National Company Law Tribunal (NCLT) or the Regional Director (RD).

The increasing use of complex transaction structures, including New Company (NewCo) arrangements, reverse acquisitions and multi-step combinations, has elevated the importance of carefully assessing the substance of these transactions rather than relying solely on their legal form.

The August 2026 edition of the Accounting and Auditing Update (AAU) discussed key accounting and valuation aspects of Purchase Price Allocation (PPA), while the September 2026 issue focused on the identification, measurement and accounting for purchase consideration.

Building on these discussions, this issue focuses on key accounting and financial reporting considerations arising in non-common control mergers and amalgamations undertaken through schemes of arrangement in India. It examines the application of Ind AS 103, including the identification of the accounting acquirer, assessment of when control is obtained and determination of the acquisition date. Additionally, the article considers the implications of the Ministry of Corporate Affairs' clarification that the appointed date specified in the scheme is deemed to be the acquisition date for

accounting purposes.

The article also explores financial reporting implications of such transactions, including their impact on tax accounting and assessment of subsequent events occurring between the reporting date and date of approval of financial statements. Together, these topics aim to provide a practical perspective on some of the key accounting and reporting complexities that may arise in non-common control mergers and amalgamations in India.



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Acquisition accounting

A. Identifying the acquirer:

Identifying the acquirer is a key first step in applying acquisition accounting under Ind AS 103. While the assessment may be straightforward in many transactions, certain structures require additional consideration. The following sections discuss two such scenarios: reverse acquisitions and business combinations involving a newly formed entity.

i) Reverse acquisitions

Many merger and share-swap schemes may be legally structured with the listed or surviving company issuing shares, while the commercial substance of the transaction may indicate that the former shareholders of the transferor or merging entity obtain control of the combined entity, resulting in a reverse acquisition. Ind AS 103 requires the acquirer to be identified by applying the guidance in Ind AS 110, *Consolidated Financial Statements* (i.e., the entity that obtains control of the acquiree is the acquirer). Where the guidance in Ind AS 110 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs B14-B18 of Ind AS 103 shall be considered in making that determination. These include, among others, relative voting rights, composition of its governing body and senior management, relative size of the combining entities and which entity initiated the transaction. Paragraphs B19-B27 of Ind AS 103 address the accounting of reverse acquisition, where the legal acquirer may be the accounting acquiree.

The case study 1 illustrates the application of these principles and consequent accounting.

Case study 1:

Facts:

- In FY 2026-27, Nova Care Pvt. Ltd. (Nova), an unlisted operating entity, proposed to acquire Solace Clinics Ltd. (Solace), a listed entity.
- Nova seeks to obtain a stock exchange listing without undertaking a public offering.
- Accordingly, the transaction is structured such that Solace acquires 100 per cent stake in Nova and Nova then merges within Solace. Solace issues its own equity shares as consideration to Nova's shareholders.

Balance sheet of both entities at the acquisition date:

Amount in INR	Solace	Nova
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Retained earnings	800	1,400
Issued equity	300 (100 ordinary shares)	600 (60 ordinary shares)
Total liabilities and equity	1,800	3,700

A. Identifying the acquirer: (contd.)

- The fair values of Solace's identifiable assets and liabilities are the same as their carrying amounts, except that the fair value of Solace's non-current assets is INR1,500.
- The fair value per equity share at the acquisition date of Solace and Nova is INR16 and INR90, respectively.
- Nova is a significantly larger entity as compared to Solace in terms of assets, revenues and profit.
- Solace issues five ordinary shares for each ordinary share of Nova as consideration for acquisition/merger. Solace therefore issues 300 shares in exchange for all 60 shares of Nova.
- Thus, Nova's shareholders own 75 per cent of the issued shares of the combined entity (i.e., 300 out of 400 issued shares). The remaining 25 per cent is owned by Solace's shareholders.
- Following the acquisition/merger, Nova's shareholders have the ability to elect, appoint or remove a majority of the members of the board of directors of the combined entity.
- In addition, Nova's shareholders hold senior management positions in the combined entity including Chief Executive Officer (CEO), Managing director, Chief Financial Officer (CFO) and other C-suite executives.

Analysis:

Identification of accounting acquirer

- Solace legally issues shares and is the surviving entity post the merger - Solace is the legal acquirer.
- However, the former shareholders of Nova hold 75 per cent of the voting rights in the combined entity.

The table below explains the post-combination ownership:

Shareholder group	Shares in Solace after transaction	Ownership (in percentage)
Existing shareholders of Solace	100	25
Former shareholders of Nova	300	75
Total	400	100

- Further, Nova is a significantly larger entity as compared to Solace and post the merger, Nova's shareholders have the ability to elect or appoint or to remove a majority of the members of the board of directors of the combined entity. Nova's shareholders also hold senior management position in the combined entity.
- Accordingly, Nova is the accounting acquirer and Solace is the accounting acquiree.
- Accordingly, this is a case of reverse acquisition.

Measurement of consideration

- In a reverse acquisition, the consideration is based on the number of equity interests the accounting acquirer would notionally be required to issue so that the owners of the legal acquirer retain the same percentage interest in the combined entity.
- Accordingly, in this situation, how many shares would Nova theoretically have needed to issue to Solace's shareholders so that Solace's shareholders owned 25 per cent of the combined company. **The notional shares to be issued by Nova are:**

Let X = notional Nova shares issued to Solace shareholders

$$X \text{ shares} / (60 \text{ shares} + X \text{ shares}) = 25 \text{ per cent}$$

$$X = 20 \text{ shares}$$

A. Identifying the acquirer: (contd.)

Analysis: (contd.)

Fair value of consideration

Basic	Calculation	Amount
Nova's share value	20 notional shares x INR90	INR1,800
Consideration transferred = INR1,800		

Fair value of identifiable net assets acquired

Solace is the accounting acquiree. Its identifiable assets and liabilities are recognised at acquisition-date fair values.

Solace identifiable items	Fair value in INR
Current assets	500
Non-current assets	1,500
Total identifiable assets	2,000
Current liabilities	(300)
Non-current liabilities	(400)
Fair value of identifiable net assets	1,300

Accordingly, Goodwill = Consideration transferred - Fair value of identifiable net assets

$$\text{INR1,800} - \text{INR1,300} = \text{INR500}$$

Equity presentation

- Retained earnings and other equity balances are those of Nova, the accounting acquirer, immediately before the combination. Pre-acquisition retained earnings of Solace is set to zero in the combined entity.
- The amount recognised as issued equity is INR1,800.
- The number and type of equity instruments presented follow Solace's legal equity structure, including the shares issued to effect the combination.

Post merger balance sheet of combined entity

The financial statements post the merger are issued under Solace's legal name but are, in substance, a continuation of Nova's financial statements. Nova's assets and liabilities and reserves continue at pre-combination carrying amounts, while Solace's identifiable assets and liabilities are recognised at acquisition-date fair values.



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A. Identifying the acquirer: (contd.)

Analysis: (contd.)

Post merger balance sheet of combined entity (contd.)

Amount in INR	Nova carrying amount	Solace fair value/adjustment	Consolidated values
Current assets	700	500	1,200
Non-current assets	3,000	1,500	4,500
Goodwill	-	500	500
Total assets	3,700	2,500	6,200
Current liabilities	600	300	900
Non-current liabilities	1,100	400	1,500
Retained earnings	1,400	- (pre acquisition retained earnings of accounting acquiree)	1,400
Issued equity	600	1,800 (consideration)	2,400
Total liabilities and equity	3,700	2,500	6,200

Source: KPMG in India analysis, 2026

To summarise, identification of the acquirer plays a very important role in business combination accounting and acquirer would not necessarily be the legal acquirer in a share acquisition or the surviving entity in a merger or amalgamation. Factors specified in paragraphs B14-B18 of Ind AS 103 require careful evaluation. The table below summarises key implications of correct identification of acquirer:

Acquisition date fair value of identifiable assets and liabilities	<p>Nova's assets and liabilities continue at pre-combination carrying amounts, while Solace's identifiable assets and liabilities are recognised at acquisition-date fair values.</p> <p>If Solace were incorrectly identified as the accounting acquirer, then this treatment would be reversed, resulting in Nova's assets and liabilities being recognised at fair value instead of those of Solace.</p>
Consideration	<p>The consideration is based on the number of equity interests the accounting acquirer would notionally have needed to issue so that the owners of the legal acquirer retain the same percentage interest in the combined entity. Thus, consideration was INR1,800.</p> <p>If Solace were incorrectly identified as the accounting acquirer, consideration would instead be based on the shares issued by Solace to Nova's shareholders, resulting in incorrect consideration of INR4,800.</p>
Equity	<p>Pre-acquisition retained earnings of Solace is set to zero in the combined entity. Retained earnings and other equity balances of Nova continue at pre-combination carrying amounts.</p> <p>If Solace were incorrectly identified as the accounting acquirer, pre-acquisition retained earnings of Nova would have been incorrectly set to zero in the combined entity and Solace's retained earnings and other equity balances would continue at pre-combination carrying amounts.</p>
Goodwill/bargain gain	<p>Consequential impact would have arisen on goodwill or bargain gain.</p>

A. Identifying the acquirer: (contd.)

ii) Newly incorporated company involved in a business combination/ merger

Business combinations are frequently executed through a newly incorporated entity (NewCo) established solely to facilitate the acquisition. However, the creation of a NewCo does not automatically make it the accounting acquirer. NewCo formations generally fall into two categories:

- a) they are either used to effect a business combination involving a third party, or
- b) in a restructuring among entities under common control.

Consistent with Ind AS 103, the assessment should focus on the economic substance of the transaction rather than its legal form.

When a NewCo is formed to issue equity interests to acquire the combining entities, paragraph B18 of Ind AS 103 generally requires one of the pre-existing entities to be identified as the accounting acquirer after considering the indicators in paragraphs B13–B17. In contrast, where a NewCo provides cash, other assets, or incurs liabilities as consideration, it may be identified as the acquirer, depending on the specific facts and circumstances.

In assessing the appropriate accounting treatment of a business combination involving a NewCo, consideration should be given to the commercial purpose of establishing the NewCo. Relevant factors may include whether NewCo was created solely to facilitate the transaction, the source of consideration, the post-combination ownership and governance structure, the relative size of the combining entities, and whether NewCo has substantive commercial objectives or activities beyond effecting the business combination. The case study 2 demonstrates how these principles apply in practice and the resulting accounting implications.

Case study 2:

Facts:

- Company P has three businesses B1, B2 and B3.
- Company P enters into an agreement with Company X for transfer of business B1. As per the agreement, the transfer was structured as below:
 - Company P was required to incorporate NewCo and demerge its business B1 into NewCo
 - The NewCo would issue its own shares to Company P as consideration
 - Post the aforesaid demerger, Company X would acquire 100 per cent stake in NewCo.
- This raises the question of whether NewCo is the acquirer for purposes of Ind AS 103 and should apply the acquisition method to Business B1, or whether the transaction is, in substance, a restructuring

Analysis:

As discussed in the earlier sections, the accounting acquirer in a NewCo formation depends on the nature of the arrangement. In this example, the transfer of business B1 to NewCo is pursuant to the arrangement between Company P and Company X - it is a pre-condition for the transaction. Thus, NewCo is used as a vehicle by Company X to acquire business B1. Hence, NewCo is the accounting acquirer in the given case and should account for the acquisition of business B1 using the acquisition method under Ind AS 103.

Source: KPMG in India analysis, 2026



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B. Determination of acquisition date

Another important aspect of accounting for a business combination is determining the acquisition date. Accounting for a business combination that is not a common control business combination under Ind AS 103 is based on the economic substance of the transaction. The acquisition method under Ind AS 103 requires the acquirer to determine of the date of acquisition i.e., the date on which the acquirer obtains control of the acquiree.

Determining the date of acquisition is important because it is the date as at which the fair value of the consideration transferred and of the identifiable assets acquired and liabilities assumed is measured, and goodwill is measured and recognised. It is also only from this date that the results of the acquiree are included in the financial statements of the acquirer.

While the determination of the acquisition date generally follows the control principle under Ind AS 103, an additional consideration arises in India where a business combination is effected through a scheme of arrangement approved by the NCLT/RD. In these cases the scheme is required to specify an 'appointed date' which may precede the acquisition date that would otherwise be determined under Ind AS 103 (commonly referred to as retrospective appointed date).

Under Ind AS, a statutory or regulatory requirement or a judicial decision overrides the Generally Accepted Accounting Principles (GAAP) applicable in a situation. It is also well established that a court/NCLT approved scheme has an overriding effect over other provisions of the Companies Act, 2013, including the requirements of accounting standards prescribed under the Companies Act, 2013.

Accordingly, where an approved scheme has an 'appointed date' that precedes the acquisition date determined under Ind AS 103, the scheme is given effect from the appointed date. Issue 8 of Bulletin 12 of the ITFG Clarification issued by the Institute of Chartered Accountants of India (the ICAI) also provides the same guidance. This position was subsequently also clarified by the MCA vide its Circular no. 09/2019,

F.No.7/12/2019/CL-I, dated 21 August 2019, which states that 'the appointed date identified under the scheme shall also be deemed to be the acquisition date and date of transfer of control for the purpose of conforming to accounting standards'.

Thus, where a scheme specifies an 'appointed date' that precedes the acquisition date that would otherwise be determined under Ind AS 103, given the fact that appointed date specified in the scheme overrides the acquisition date determined as per Ind AS 103:

- The accounting for the business combination, including measurement of consideration transferred, purchase price allocation, etc. is to be done considering the appointed date as the acquisition date;
- The results of the acquiree are to be included from the appointed date.
- Where the appointed date falls in the preceding financial year, the comparative information is required to be restated;

Further, the financial statements should include appropriate disclosures explaining the accounting treatment prescribed by the scheme and the impact of the deviation from the accounting standards. This is based on the *ICAI's Announcement published in 2004, Announcement on Disclosures in cases where a Court/Tribunal makes an order sanctioning an accounting treatment which is different from that prescribed by an Accounting Standard.*¹

Reference may also be made to ICAI Expert Advisory Committee Opinion (EAC) Opinion, Query No. 30 of Volume 34, dated 7 November 2014, *Impact of differential treatment to a court approved scheme on the financial statements and audit report in the subsequent years*, which considers the implications of such differential accounting treatment for the financial statements and the auditor's report in subsequent years.

1. <https://www.icaai.org/post/asb-announcements-clarifications-faqs>>Announcements of the Council Regarding Status of Various Documents Issued by the Institute of Chartered Accountants of India >XXIV Announcement on Disclosures in cases where a Court/Tribunal makes an order sanctioning an accounting treatment which is different from that prescribed by an Accounting Standard



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B. Determination of acquisition date (contd.)

Further, the management should also consider discussing the impact of such deviation on the audit report with their auditors.

The case study 3 illustrates the application of these principles where the appointed date specified in an NCLT-approved scheme precedes the date on which the scheme receives regulatory approval.

Case study 3:

Facts:

- Zenith Digital Solutions Private Limited (Zenith or the Company) is a private limited company incorporated in India and engaged in the business of software development and technology support services.
- The Company filed a Scheme of Merger by Absorption (the Scheme) of Quantum Software Labs Private Limited (Quantum or the transferor company) with Zenith and its shareholders under Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions thereof with the NCLT, Bengaluru Bench.
- Quantum filed the Scheme with the NCLT, Mumbai Bench.
- The acquisition of Quantum by Zenith represents a non-common control business combination and is therefore required to be accounted for using the acquisition method in accordance with Ind AS 103.
- The Scheme specified an appointed date of 1 October 2024.
- Quantum received approval of the Scheme from NCLT Mumbai Bench on 9 February 2026.

- Zenith received approval of the Scheme from the NCLT Bengaluru Bench on 20 March 2026.

Analysis:

As per Ind AS 103, the date of acquisition cannot be earlier than the date on which approval is obtained from the competent authority if the approval is considered to be a substantive approval. In the given case, NCLT approval is considered to be a substantive approval which is received on 20 March 2026.

Hence, as per Ind AS 103, if the overriding effect of the Scheme is not considered, the acquisition date is 20 March 2026.

However, the Scheme specifically provides an appointed date of 1 October 2024.

Applying the principles discussed, and notwithstanding the fact that acquisition date as per Ind AS 103 is 20 March 2026, Zenith Digital Solutions Private Limited should account for the business combination from 1 October 2024, the appointed date prescribed in the Scheme.

Consequently, the assets and liabilities would be recognised at fair value on such appointed date and financial performance of Quantum would be incorporated in the financial statements of Zenith with effect from 1 October 2024.

Accordingly, all accounting implications of the business combination, including measurement of consideration and purchase price allocation, should be determined with reference to the appointed date. The results of Quantum should also be incorporated from that date and, since the appointed date falls in an earlier period, the comparative information should be restated, along with appropriate disclosures regarding the resulting deviation from Ind AS 103.

Source: KPMG in India analysis, 2026



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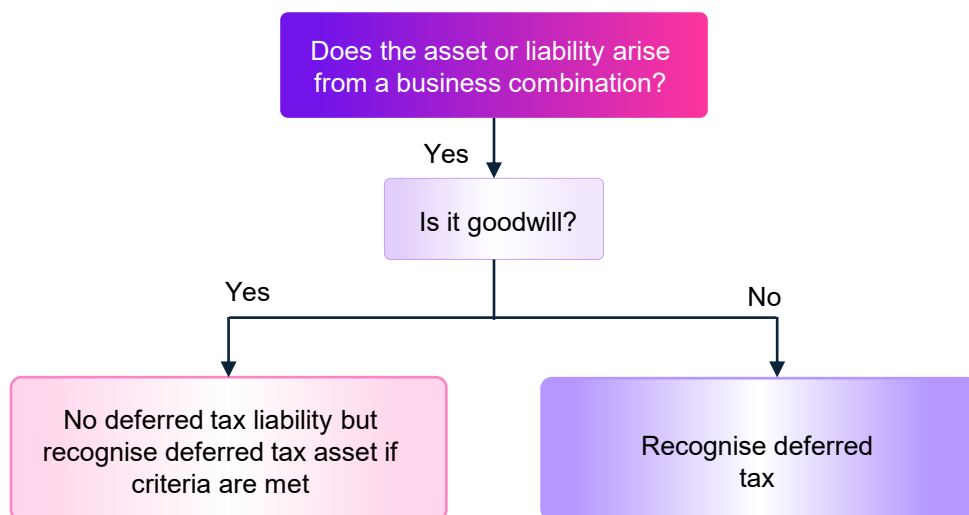
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Other relevant considerations in case of scheme of arrangements

A. Deferred tax

Temporary differences may arise in a business combination. In accordance with Ind AS 103 read with Ind AS 12, *Income Taxes*, an entity recognises any resulting deferred tax assets (DTA) to the extent that they meet the recognition criteria or deferred tax liabilities (DTL) as identifiable assets and liabilities at the acquisition date. Consequently, those deferred tax assets and deferred tax liabilities affect the amount of goodwill or the bargain purchase gain the entity recognises. However, an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill as per paragraph 15 of Ind AS 12.

The following chart summarises the key considerations in determining the deferred tax implications arising from a business combination:



- The Case study 4 illustrates the deferred tax implications of acquisition accounting and how these are impacted by a subsequent merger.

Case study 4:

Facts:

- Company A acquired 100 per cent of the equity shares of Company B on 1 April 2025 for a consideration of INR1,300.
- Company A accounted for the transaction as a business combination under Ind AS 103.
- On the date of acquisition, the carrying value and the tax base of the net assets of Company B were as follows:

Particulars	Carrying amount as per B's books	Tax base	Temporary difference	Deferred tax liability at 30 per cent
Property, plant and equipment	1,000	600	400	(120)
Current assets	100	100	-	-
Current liabilities	(200)	(200)	-	-
Deferred tax liability	(120)			
Net assets	780			

A. Deferred tax (contd.)

- At the acquisition date, the fair value of the identifiable net assets was the same as their carrying amount, except that an identifiable intangible asset of INR300 was recognised.
- There was no change in tax base upon acquisition by Company A.
- Immediately, Company A then filed for a scheme of merger of Company B within Company A on 1 June 2026 with 1 April 2025 as the appointed date.
- As per the scheme of merger Company A has proposed to account for the carrying values of Company B's net assets at values as appearing in the consolidated financial statements of Company A post acquisition.
- The intangible identified on acquisition will be tax deductible on merger.

Analysis:

- The acquisition was accounted for as follows on 1 April 2025 in the consolidated financial statements (CFS) of Company A:

Particulars	Book base (carrying amount as per A's CFS)	Tax base	Temporary difference	Deferred tax liability at 30 per cent
Property, plant and equipment	1,000	600	400	(120)
Goodwill	310**	-	_*	_*
Other intangible assets	300	-	300	90
Current assets	100	100	-	-
Current liabilities	(200)	(200)	-	-
Deferred tax liability	(210)			
Net assets	1,300			

* No deferred tax is recognised on goodwill arising in a business combination as per Ind AS 12

** Goodwill = INR1,300 – INR990 (existing net assets of B of INR780 + identifiable intangible recognised on acquisition of INR300 - DTL on intangible of INR90 at 30 per cent of 300)



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A. Deferred tax (contd.)

Analysis: (contd.)

Pursuant to the merger of Company B with Company A with 1 April 2025 as the appointed date:

- the assets and liabilities are recognised by Company A at carrying amount as appearing in the consolidated financial statements of Company A as per the NCLT approved scheme.
- Pursuant to the merger tax base of assets and liabilities should be reassessed.
- Assuming that pursuant to the merger, the tax base of assets and liabilities is same as the amounts at which assets and liabilities are recognised by Company A as per the NCLT approved Scheme (i.e. carrying amount as appearing in the consolidated financial statements of Company A), then there is no deferred tax liability that is required to be recognised as per Ind AS 12.
- Thus, upon the merger, the deferred tax liability should be derecognised.

Source: KPMG in India analysis, 2026

B. Impact of subsequent events and comparative restatement

In practice, a scheme of arrangement may be filed with the NCLT during a financial year, while the approval of the scheme may be received only after the reporting date but before the financial statements are authorised for issue. Where the scheme specifies an appointed date that falls on or before the reporting date, this raises an important question as to whether the approval received after the reporting period requires adjustment to the financial statements under Ind AS 10, Events after the Reporting Period.

The case study 5 illustrates the accounting considerations in such a situation.

Case study 5:

Facts:

- Company A is proposed to be merged with Company B pursuant to a scheme of arrangement, with 1 April 2025 specified as the appointed date.
- The scheme is approved by NCLT on 24 April 2026, after the close of financial year date i.e., 31 March 2026 but before approval of Company B's financial statements by the Board.
- This raises the question of whether the merger should be given effect to in the financial statements of Company B for the year ended 31 March 2026

Analysis:

- Paragraph 22(a) of Ind AS 10 provides that a major business combination after the reporting period is an example of a non-adjusting event.
- However, in this instance, the NCLT-approved Scheme specifies an appointed date of 1 April 2025, which falls within the financial year ended 31 March 2026.
- In this context, reference is made to ITFG Clarification Bulletin 14, Issue 4. As clarified in the said ITFG, where an NCLT order approving a Scheme is received after the reporting date but before the financial statements are authorised for issue, and the Scheme specifies a retrospective appointed date preceding the reporting date, the merger is given accounting effect from such appointed date.
- Applying the guidance discussed, in the given instance since the NCLT order approved the scheme with a retrospective effect subsequent to the balance sheet date but before the approval of financial statements, the effect of merger will be given in the financial statements for the year ended 31 March 2026 as an adjusting event.

Source: KPMG in India analysis, 2026



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B. Other accounting considerations

Beyond the accounting considerations discussed in the earlier sections, merger transactions may give rise to several other matters requiring careful evaluation and, in some cases, significant judgement. Some of the key considerations are discussed below.

Purchase consideration including evaluation of pre-existing relationships between transacting entities

Purchase consideration often involves significant judgement in determining whether amounts paid form part of the consideration transferred or represent separate transactions. Challenges commonly arise in assessing contingent consideration, deferred consideration, working capital adjustments, indemnification arrangements, and whether certain payments are remuneration in substance. Ind AS 103 also requires entities to determine whether arrangements between the parties form part of the business combination or represent separate transactions. These assessments, including an assessment of the substance of the contract, commercial or other pre-existing relationships, can have a significant impact on the measurement of consideration transferred, goodwill, bargain purchase gains and subsequent accounting. These considerations were discussed in the September 2026 issue of the AAU in the chapter *Business Combination Series 2 – Purchase Consideration in Business Combinations*.

Purchase Price Allocation (PPA) including identification of intangible assets

The acquisition method requires identifiable assets acquired and liabilities assumed to be recognised and measured at acquisition-date fair values. This includes identifying intangible assets that may not have previously been recognised in the acquiree's financial statements, such as customer relationships, brands and technology. The identification and valuation of such assets, as well as other assets and liabilities acquired, may involve significant judgement in selecting appropriate valuation methodologies and assumptions and determining the need for valuation specialists. The August 2026 issue of the AAU discussed these aspects in the *chapter Business Combination Series 1 – Purchase Price Allocation*.

Acquisition costs

Another common consideration in accounting for a business combination is the treatment of acquisition-related costs, such as stamp duty incurred by the acquirer. Under Ind AS 103, stamp duty incurred on the transfer of assets pursuant to a business combination is considered an acquisition-related cost. Such cost is incurred to effect the business combination but does not form part of the consideration transferred for obtaining control. Further, the stamp duty does not enhance the future economic benefits of the identifiable assets acquired, which are separately recognised at fair value. Accordingly, stamp duty should generally be recognised as an expense in the period in which it is incurred and should not be capitalised as part of the cost of acquisition.

Measurement period

The acquisition method under Ind AS 103 permits the use of provisional amounts when the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs. A key area of judgement is determining whether the new information relates to facts and circumstances that existed at the acquisition date and consequently whether the same qualifies as a measurement period adjustment. Such adjustments affect the measurement of identifiable assets, liabilities and goodwill, together with the related disclosures. These considerations were discussed in detail in the February 2025 issue of the AAU in the chapter *The measurement period in business combination 1*.

Evaluating scheme documentation and appointed versus effective date considerations

For mergers implemented through a scheme of arrangement, careful evaluation of the scheme document and NCLT/RD order is essential. A key challenge is assessing the interaction between the appointed date specified in the scheme and the acquisition-date requirements under Ind AS 103, together with the terms and conditions governing the transaction.



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B. Other accounting considerations (contd.)

Hedging relationship post-merger

In a business combination, the acquiree's existing hedging relationship does not automatically continue after the acquisition. Instead, the original hedge relationship is effectively terminated and the combined entity must assess whether it wishes to designate the acquired derivative instruments in a new hedging relationship. Any such new designation must independently satisfy all applicable hedge accounting requirements, including the assessment of expected hedge effectiveness.

Obtaining hedge accounting for a newly designated hedge following an acquisition may be nuanced for a number of reasons. First, the acquired derivative instruments are likely to have a non-zero fair value at the acquisition date. Second, the hedged assets and liabilities are generally remeasured as part of acquisition accounting, resulting in a measurement basis that may differ from that used in the original hedging relationship. Third, the likelihood of the forecast transaction underlying the hedge may need to be

reassessed in light of the facts and circumstances existing after the business combination. Consequently, transactions involving acquired hedging relationships should be carefully assessed as part of the business combination and purchase price allocation exercise.

Disclosures

The accounting for a business combination is accompanied by extensive disclosure requirements under Ind AS 103. These are primarily governed by paragraphs 59-63 and Appendix B (paragraphs B64-B67) of Ind AS 103 and are intended to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Accordingly, disclosure requirements should be considered throughout the business combination accounting process rather than only at the financial statement preparation stage, particularly where the transaction involves significant judgements, provisional accounting or complex arrangements.



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C. Compliance requirements under Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) (contd.)

Compliance under the Companies Act, 2013

Sections 230 to 232 of the Companies Act, 2013 provide the framework for compromises, arrangements, mergers and amalgamations of companies through a scheme sanctioned by the NCLT. Where a compromise or arrangement is proposed between a company and its creditors or members, an application may be made to the NCLT for convening meetings of the relevant creditors or members. The company is required to disclose all material facts relating to the company, including its latest financial position, auditor's report, pending investigations or proceedings, and, where applicable, a valuation report prepared by a registered valuer. Notices of the proposed scheme are required to be circulated to creditors, members and debenture holders, together with the details and effects of the arrangement and other prescribed information.

In the case of a scheme involving merger or amalgamation, the companies are additionally required to circulate the draft scheme, confirmation of filing of the draft scheme with the Registrar, a report explaining the effect of the scheme on shareholders and other stakeholders, the share exchange ratio and valuation matters, the valuation report, if any, and a supplementary accounting statement where required. The NCLT may sanction the scheme after being satisfied that the prescribed procedures have been complied with. The scheme is required to clearly indicate the appointed date from which it shall be effective, and the companies must file the NCLT's order with the Registrar and continue to report compliance with the scheme until its completion.

Section 233 of the Companies Act, 2013 provides a simplified framework for mergers or amalgamations between two or more small companies, a holding company and its wholly-owned subsidiary company, or such other class or classes of companies as may be prescribed. Companies covered under this section may undertake a merger or amalgamation through the approval process prescribed in Section 233, subject to

obtaining the requisite approvals from members, creditors, and regulatory authorities, and compliance with the prescribed procedural requirements. Under Section 233(1)(b) and (d) of the Companies Act, 2013, read with Rule 25 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, the scheme is required to be approved by members holding at least 90 per cent of the total number of shares and by a majority representing nine-tenths in value of the creditors or class of creditors, either at the duly convened meeting or, in the case of creditors, through written approval. In addition, pursuant to Section 233(1)(c) read with Rule 25(2), each company involved in the merger is required to file a declaration of solvency in Form CAA.10, along with the prescribed fee, with the Registrar before convening the meetings of members and creditors for approval of the scheme.

Pursuant to the Companies (Compromises, Arrangements and Amalgamations) Amendment Rules, 2025, the scope of the fast-track merger mechanism under Section 233 of the Companies Act, 2013 has been significantly expanded. In addition to mergers involving small companies and holding companies with their wholly-owned subsidiaries, the fast-track route is now available to specified categories of unlisted companies, holding-subsidary structures, fellow subsidiaries, and mergers of a foreign holding company into its Indian wholly-owned subsidiary. Further, the amendment introduces a simplified approval framework for schemes involving the division or transfer of undertakings by providing that Rule 25 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 shall apply, mutatis mutandis, to such transactions. Consequently, a wider range of intra-group reorganisations, mergers, amalgamations, demergers and scheme of division or transfer of the undertaking of a company may now be implemented through the Regional Director/Central Government route, thereby reducing reliance on the conventional NCLT approval process, subject to compliance with the prescribed eligibility conditions and procedural requirements.

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C. Compliance requirements under Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) (contd.)

Compliance under SEBI Regulations

In addition to complying with the provisions of the Companies Act, 2013, listed companies are also required to comply with the applicable Securities and Exchange Board of India (SEBI) LODR Regulations and the related SEBI framework governing schemes of arrangement. SEBI's Master Circular on Scheme of Arrangement dated 20 June 2023² consolidates the requirements applicable to schemes involving entities with listed specified securities.

Regulation 37 of the LODR Regulations requires a listed entity proposing a scheme of arrangement under the relevant sections of Companies Act, 2013 to file the draft scheme with the recognised stock exchange(s) and obtain a No-Objection Letter before approaching the Court or Tribunal. The No-Objection Letter must be submitted to the Court or Tribunal while seeking approval and is valid for six months from the date of issuance. The 2023 Master Circular lays down a comprehensive framework covering valuation report, valuation and share exchange ratio, fairness opinion, recommendations of the Audit Committee and the Committee of Independent Directors, shareholder approval and e-voting requirements, creditor consents and disclosures. Importantly, from a financial reporting perspective, the accounting treatment contained in the scheme is required to comply with the applicable accounting standards, supported by a certificate from the statutory auditor. The circular also prescribes the framework for seeking relaxation from the requirements of Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957 where securities of an unlisted/resulting entity are proposed to be listed pursuant to a scheme without an IPO.

SEBI has also prescribed corresponding requirements for entities with listed debt securities. SEBI's Master Circular dated 21 May 2024³ consolidates the LODR requirements applicable to issuers of non-convertible securities, securitised debt instruments and commercial paper. In the context of schemes of arrangement, it sets out the framework under Regulation 59A for entities with listed non-convertible debt securities

(NCDs) or non-convertible redeemable preference shares (NCRPS), including requirements relating to filing of the draft scheme with the stock exchange(s), protection of debt holders, debenture trustee approvals and assessment of the resultant entity's ability to service interest and repay principal.

Recognising that schemes involve multiple regulatory steps, SEBI and the stock exchanges have also sought to make the process more structured for listed entities. The Master Circulars bring the key regulatory requirements together in a consolidated framework, helping companies identify upfront the approvals, reports, certifications and disclosures required when formulating a scheme. This has been supplemented by the Joint Standard Operating Procedure (SOP) by exchanges, which provides defined timelines for various stages of the stock exchange/SEBI review process. The SOP also lays down timelines for identification of deficiencies, exchange queries and responses by companies, making the review process easier for companies to plan and monitor.

The process is further supported by detailed checklists and Frequently Asked Questions (FAQs) issued by the stock exchanges, which provide practical guidance on matters such as documentation, valuation methodology, financial information, creditor NOCs and the contents of the draft scheme.

Accordingly, while schemes involving listed entities are subject to enhanced regulatory safeguards, the consolidated SEBI framework and the subsequent standardisation of procedures have made the regulatory journey more transparent and manageable for companies undertaking mergers, demergers and other schemes of arrangement.

2. SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 'Master Circular on (i) Scheme of Arrangement by Listed Entities and (ii) Relaxation under Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957' dated 20 June 2023

3. SEBI Master Circular No. SEBI/HO/DDHS/DDHS-PoD-1/P/CIR/2024/48 'Issuers who have listed Non-convertible Securities, Securitised Debt Instruments and/or Commercial Paper' dated 21 May 2024

D. Conclusion

Merger transactions in India require careful consideration not only of the legal requirements under the Companies Act, 2013 and applicable SEBI regulations, but also of the accounting consequences arising under Ind AS 103. Entities should evaluate key judgemental areas such as whether the acquired set constitutes a business, determination of the acquisition date, purchase price allocation, identification and valuation of intangible assets, treatment of pre-existing relationships, purchase consideration arrangements and measurement period adjustments. In schemes of arrangement, particular attention should also be given to the terms of the scheme, the order issued by the relevant authority, the

appointed date and the regulatory approvals and disclosures required. As these assessments can significantly affect recognised assets and liabilities, goodwill, subsequent financial reporting and stakeholder outcomes, entities should ensure that the transaction is supported by robust analysis, appropriate documentation and timely involvement of accounting, valuation, legal and regulatory specialists. A thorough understanding of these areas can help entities navigate merger transactions more effectively and reduce execution and reporting risks.



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