This article aims to:
- Discuss the accounting treatment of goodwill under Ind AS in respect of subsidiaries, associates and jointly controlled entities in consolidated financial statements.

Introduction


Under Indian Accounting Standards (Ind AS), recognition of goodwill is allowed only when there is a business combination as per Ind AS 103, *Business Combinations*. As per Ind AS 103, goodwill is defined as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Further, the first time adoption principles in Ind AS 101, *First-time Adoption of Indian Accounting Standards* lay down all transition related requirements when a company moves from accounting as per the current principles (Indian GAAP) to Ind AS. As a basic principle, the requirements of Ind AS need to be applied retrospectively. However, to ease the transition, companies have the choice of electing certain exemptions from such retrospective application.

In this article, we aim to discuss the accounting treatment of goodwill under Ind AS in respect of subsidiaries, associates and jointly controlled entities in the Consolidated Financial Statements (CFS). Recently, the Expert Advisory Committee (EAC) (the committee) of the Institute of Chartered Accountants of India (ICAI) issued an opinion on ‘Amortisation of goodwill in respect of subsidiaries and jointly controlled entities recognised as an asset in consolidated financial statements’.

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1. EAC opinion issued by ICAI in June 2018.
Case study – Accounting for goodwill under Ind AS

A Ltd. (the company) is a wholly-owned subsidiary of a listed government company. The company is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India. The company operates overseas projects directly and/or through subsidiaries by participation in various joint arrangements and investments in associates.

The company in its CFS recognised goodwill in respect of subsidiaries, associates and jointly controlled entities in accordance with AS 21, AS 23, Accounting for Associates in Consolidated Financial Statements and AS 27, Financial Reporting of Interests in Joint Ventures. The company considered that in sectors such as oil and gas, exploration and production, the goodwill generated on acquisition of mineral rights either through jointly controlled entities or subsidiaries, inherently derives its value from the underlying mineral rights and, accordingly, value of such goodwill depletes as the underlying mineral resources are extracted. Accordingly, under the Indian GAAP, the company framed an accounting policy for amortisation of the goodwill in respect of its subsidiaries/jointly controlled assets over the life of the underlying mineral rights using the Unit of Production (UOP) method.

The company adopted Ind AS from 1 April 2016. The company availed the transition exemption under Ind AS 101 and has not restated its past business combinations retrospectively. Accordingly, the company did not fair value the acquisition of shares in joint ventures and subsidiaries which occurred before the transition date. The carrying amount of goodwill at the date of transition to Ind AS in accordance with Indian GAAP has been taken as the carrying value of the goodwill in the opening Ind AS balance sheet. The company intends to continue amortisation of the goodwill recognised under Indian GAAP over the life of the underlying mineral rights using UOP method post transition date also.

Guidance under Ind AS

1. Accounting for subsidiaries: Guidance in Ind AS 101 provides that for business combinations that occurred before the date of transition to Ind AS, an entity being a first time adopter of Ind AS has the following choices:
   - Restate all past business combinations
   - Restate all business combinations after a particular date, or
   - Do not restate any its past business combinations.

The business combinations exemption applies equally to acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business that occurred before the date of transition.

In case an entity elects not to restate past business combination, then the previous acquisition accounting remains unchanged. However, some adjustments such as reclassification of intangibles and goodwill may be required. Goodwill acquired in an unreported business combination is not amortised but tested for impairment in accordance with Ind AS 36, Impairment of Assets at the date of transition. Any resulting impairment loss is recognised directly in retained earnings at the date of transition to Ind AS.

In case an entity elects to restate past business combinations retrospectively, then goodwill is recomputed in line with Ind AS 103 and is tested for impairment as per Ind AS 36 at the date of transition even if there is no indication that an impairment exists at transition date.

Post transition, Ind AS 36 requires goodwill to be tested for impairment in the annual mandatory impairment testing, without there being an indication of impairment in the underlying cash generating unit. Ind AS prohibits amortisation of goodwill.

2. Joint ventures – Proportionate consolidation to the equity method: On first-time adoption of Ind AS, an entity when changing from proportionate consolidation to the equity method is required to recognise its investment in the joint venture at the date of transition. As per guidance in Ind AS 101, when changing from proportionate consolidation to the equity method, an entity should recognise its investment in the joint venture at the transition date to Ind AS. The initial investment should be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity should allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged. The balance of the investment in the joint venture at the date of transition to Ind AS is regarded as the deemed cost of the investment at initial recognition.

When an entity changes from proportionate consolidation to the equity method, a first-time adopter should test investment in joint venture for impairment in accordance with Ind AS 36 at the date of transition to Ind ASs regardless of whether there is any indication that the investment may be impaired.
3. Accounting for goodwill in case of associates and joint ventures: Under Ind AS 28, Investments in Associates and Joint Ventures, goodwill is not separately accounted rather it is included as part of the carrying value of investments. As per guidance in Ind AS 28, an entity is required to account for investments in associates and joint ventures using the equity method except in limited circumstances. On the date of acquisition of an equity-accounted investee, fair values are attributed to the investee’s identifiable assets and liabilities. Any positive difference between the cost of the investment and the investor’s share of the fair values of the identifiable net assets acquired is goodwill.

Goodwill is included in the carrying amount of the investment in the equity-accounted investee and is not shown separately. Goodwill is not amortised and therefore amortisation is not included in the determination of the investor’s share of the investee’s profit or loss. Goodwill attributable to the investment is not tested for impairment annually. Instead, after applying equity accounting, the investment is tested for impairment when there is an indication of a possible impairment.

Conclusion
In the given case, the accounting policy proposed by the company to continue amortisation of goodwill under Ind AS on consolidation of subsidiary or jointly controlled entity is not appropriate. As per the principles of Ind AS the carrying amount of goodwill or goodwill acquired under business combination should be tested for impairment periodically as per guidance under Ind AS 36. While investment in associates and joint ventures would be tested for impairment if there is an indication of impairment.

Consider this:
- Under Ind AS, goodwill is recognised only when there is a business combination.
- On first-time transition to Ind AS, an entity can avail the transition exemption from retrospective application in respect of past business combinations.
- If an entity does not restate past business combinations, the carrying amount of goodwill at the date of transition to Ind AS in accordance with Indian GAAP becomes the carrying value of the goodwill in the opening Ind AS balance sheet.
- Under Ind AS, goodwill is not amortised.
- Goodwill is tested for impairment on first-time adoption of Ind AS regardless of whether there is any indication that the goodwill may be impaired.