

A large, 3D graphic of a white arrow with a black outline, curving from the bottom left towards the top right. The arrow has a thick, blocky appearance and is set against a light blue background with a darker blue gradient at the top.

THE STANDARD STANCE

Navigating Accounting Considerations for
Business Combinations Under Common Control

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EXECUTIVE SUMMARY

Companies reorganise their group structures through mergers, demergers, subsidiary transfers, or the consolidation of legal entities. These changes are made to simplify complex organisational structures, improve governance, prepare for capital market transactions, or achieve operational efficiencies. While these transactions may appear straightforward from a commercial perspective, they may create complex accounting issues when they take place within the same corporate group.

Business combinations under common control represent transactions where control of the combining entities ultimately remains with the same shareholder or the group of shareholders before and after the transaction. Consequently, these arrangements differ fundamentally from other than common control transactions, where control changes.

This publication examines the accounting framework, practical challenges, and key considerations associated with common control transactions.

BACKGROUND AND REGULATORY CONTEXT

The accounting framework for mergers and restructuring transactions in India is primarily set out in Ind AS 103 “Business Combinations”. This Standard provides guidance for the recognition and measurement of identifiable assets acquired, liabilities assumed, and any resulting goodwill.

A significant proportion of corporate reorganisations generally occur within existing group structures where the combining entities are ultimately controlled by the same shareholder or shareholder group both before and after the transaction. In these cases, there is no substantive change in ultimate ownership. Due to the unique economic characteristics of such arrangements, Ind AS 103 excludes business combinations under common control from its general acquisition accounting requirements and these are accounted for under Appendix C - Business Combinations of Entities Under Common Control, which provides specific guidance for transactions occurring within the same group.

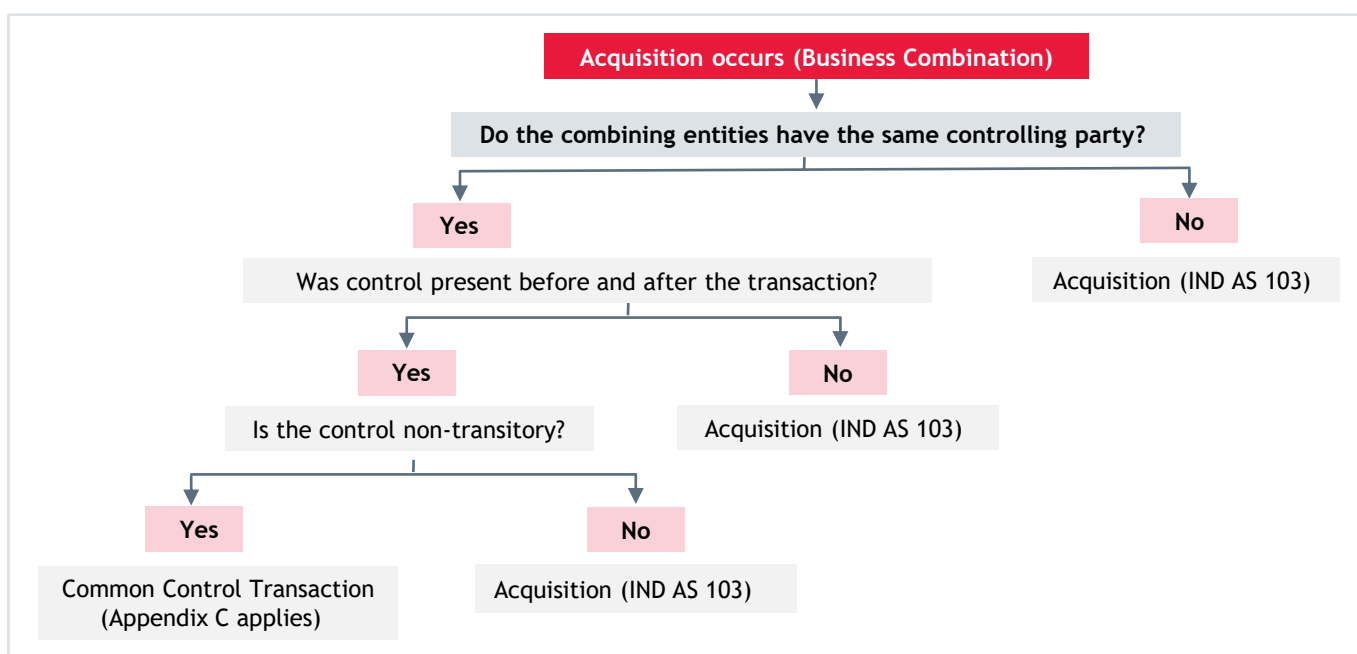
ICAI Clarifications (ITFG)

The Ind AS Transition Facilitation Group (ITFG) of the ICAI has issued clarifications on several recurring common control questions, for example, the merger of a subsidiary into its parent, the transfer of a division that qualifies as a business, the period over which comparatives are restated, and how to deal with entities that were not applying Ind AS in earlier periods. These clarifications should be consulted alongside Appendix C whenever a transaction does not fit the given fact pattern.

WHAT IS A COMMON CONTROL TRANSACTION AND HOW IS IT DIFFERENT

Appendix C defines a common control business combination as one in which *all the combining entities or businesses are ultimately controlled by the same party (or parties) both before and after the combination, and that control is not transitory*. Three elements must hold together:

- **Common controlling party** - the same ultimate party (or parties) controls every entity involved.
- **Before and after** - that control exists both immediately before and immediately after the transaction.
- **Not transitory** - A temporary holding structure inserted immediately before a sale, IPO, dilution event, or external fundraise may fail the “not transitory” condition. Where a group of individuals (for example: a promoter family) is the controlling party, control as a group generally requires a contractual arrangement to act together.



COMMON CONTROL TRANSACTION VS NON-COMMON CONTROL TRANSACTION

Dimension	Common control transaction	Non-common control transaction
Change in ultimate control	No, same controlling party before and after	Yes, acquirer obtains control
Governing guidance (Ind AS)	Appendix C to Ind AS 103	Ind AS 103
Method	Pooling of interest method	Acquisition method
Assets and liabilities	Existing carrying amounts	Acquisition-date fair value
Goodwill	Not recognised	Recognised (or Capital Reserve)
Difference on combination	Adjusted in capital reserve (equity)	Goodwill, or Capital Reserve
Comparatives	Restated retrospectively, from the date the entities first came under common control, if that is later.	Not restated; prospective from acquisition date
Economic substance	Reorganisation within the group	Purchase of a business

Note:

Under Appendix C, reserves of the transferor retain their identity after the business combination. The difference between the consideration transferred and the transferor's share capital is recognised as capital reserve. Where the consideration exceeds the carrying value of the net assets acquired, the resulting deficit is to be adjusted against capital reserve or revenue reserves (subject to necessary approvals, which may be required for capital reduction). Where the existing reserves are insufficient, the excess is presented as a separately disclosed deficit reserve (e.g., Amalgamation Adjustment Deficit Account) within reserves.

Non-transitory Control In Business Combinations Under Common Control:

Business combinations under common control are often assessed by the question: Was common control present before and after the transaction?

Appendix C to Ind AS 103 further requires that such control should not be transitory. While the Standard does not specify how long the control must exist, the focus is on the economic substance of the arrangement, rather than simply its legal form.

In practice, group restructurings are often carried out through several steps. For example, a business may be transferred through intermediate holding companies, or a new company may be created as part of the restructuring. In such situations, the mere existence of common control immediately before and after a transfer may not by itself explain the economic substance of the transaction.

The more fundamental question is whether the transaction forms part of a continuing ownership structure or whether the common-control relationship has been created only to facilitate a particular transfer. If the ultimate controlling shareholder's interest in the business remains largely unchanged throughout the restructuring, the transaction is more likely to qualify as a true common control arrangement. However, where a business has recently entered the group from an external party and is then redistributed within the group pursuant to a pre-arranged plan, the temporary existence of common control may not necessarily reflect the economic reality.

Importantly, this assessment should not be based solely on the length of time the business has been under common ownership. A short period of ownership may still be considered non-transitory if the arrangement is genuine. Similarly, a long period of common ownership does not automatically prove that control is non-transitory if the structure was primarily put in place to achieve a later transaction.

Scenario A

Parent Co acquires an unrelated technology business from an external party. Shortly after the acquisition, the business is transferred to another wholly owned subsidiary as part of a pre-existing integration plan.

Analysis

Although the transfer occurs between entities under common control, the brief period of common ownership may indicate that the common-control relationship is merely transitional. In substance, the receiving subsidiary is acquiring a business that originated outside the group.

Scenario B

Investor X owns Company A. Investor Y owns Company B. The two investors agree to combine the businesses.

To implement the transaction, a new holding company is incorporated. Immediately before the combination, both Company A and Company B are transferred to the newly established holding company, resulting in the businesses being under common control. Shortly thereafter, Company B is merged into Company A.

Analysis

From a legal perspective, common control exists immediately before and after the merger. However, the common-control relationship was created as part of the transaction itself and did not represent an ongoing ownership arrangement that existed independently of the planned combination.

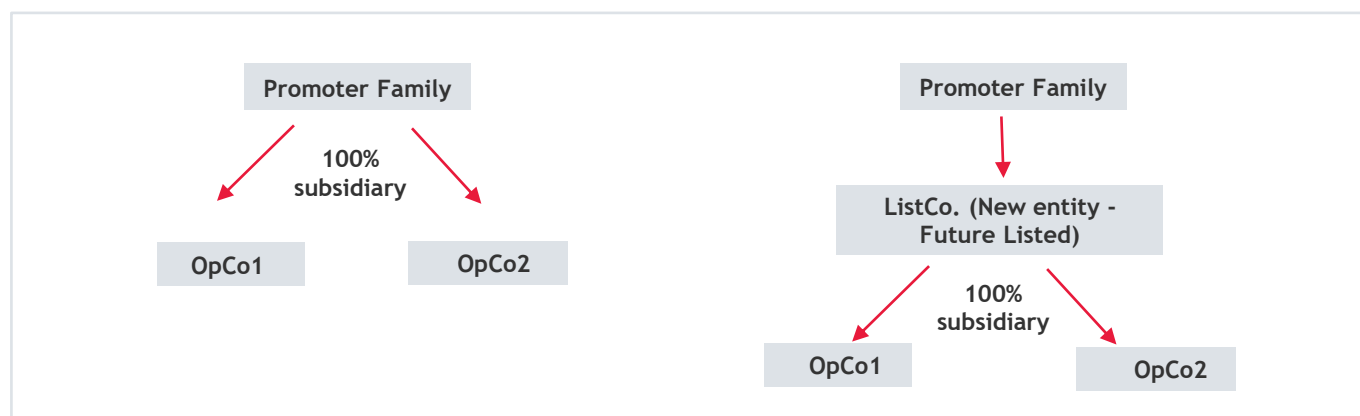
In substance, the establishment of common control was merely a step undertaken to facilitate the merger rather than evidence of a continuing common-control structure. Accordingly, the condition that control should be "not transitory" may not be met.

Non-transitory control is ultimately less about how long control exists and more about why it exists. The assessment should focus on whether the transaction reflects the continuation of an existing economic group or whether common control arises only temporarily to achieve a broader commercial objective.

ILLUSTRATIVE SCENARIO

Scenario A – Pre-IPO restructuring via a new holding company

A promoter family directly controls two operating companies, OpCo1 and OpCo2. Ahead of a listing, they insert a new holding company, ListCo, which acquires both OpCos in exchange for ListCo shares; ListCo will then list. OpCo1 has net assets of ₹500 (capital ₹200, reserves ₹300) and OpCo2 has net assets of ₹300 (capital ₹120, reserves ₹180). ListCo issues share capital of ₹400 in total.



Analysis

This is a common control combination, and ListCo applies pooling, presenting the OpCos as if combined throughout the comparative periods (subject to the date they first came under common control):

Particulars	₹
Combined net assets recognised (500 + 300)	800
Reserves preserved (300 + 180)	480
Share capital issued by ListCo	400
Combined share capital of OpCos (200 + 120)	320
Capital reserve adjustment (400 – 320), debited	(80)

Is control transitory? Where a structure is introduced in close proximity to an IPO, sale, or external investment, the presumption of non-transitory control should be carefully evaluated in the above cases. Management should be able to demonstrate that the structure has standalone commercial substance, independent of the transaction.

Scenario B - Family Ownership Does Not Necessarily Mean Common Control

Entity A is jointly controlled by the mother and father. Entity B is controlled by their son. A business is proposed to be transferred between Entity A and Entity B.



Analysis:

The assessment focuses on whether the same party or group of parties controls both entities before and after the transaction, and whether that control is not transitory. In this fact pattern, Entity A is controlled jointly by the parents, while Entity B is controlled by the son.

In transactions involving family members, the existence of a family relationship, by itself, does not indicate that the entities are under common control. The assessment should focus on whether the family members act together in directing the relevant activities of the entities. This may include the voting arrangements, shareholder agreements, the ability of one or more family members to influence or direct the decisions of others and financial interdependencies.

Further, consideration should also be given to whether any family member has substantive rights that enable them to direct the activities of the entities independently, or whether significant decisions require consultation or agreement among multiple family members. If the individuals concerned are 'close members of the family', they may act collectively, and it may qualify as a business combination under common control. However, common control is unlikely to exist where the family members are adults, as such individuals are more likely to act independently. In all such situations involving family members, where there is sufficient evidence that the family members (irrespective of the family relationship) have acted independently, then it would generally not qualify as a business combination under common control.

The conclusion on whether common control exists is highly dependent on the specific facts and circumstances of each case. The following examples illustrate how the assessment may vary:

Scenario A

Entity A is controlled by the parents, and Entity B is controlled by their daughter. If the daughter is financially dependent on the parents and generally follows their direction in key business decisions, the parties may be considered to act collectively, and common control may exist. However, if she independently directs the activities of Entity B with no evidence that the parties act together, common control is less likely to exist.

Scenario B

Entity A is controlled by one sibling, and Entity B is controlled by another adult sibling. The siblings are not considered close family members, and there is no evidence that they act collectively in directing the relevant activities of both entities. In such circumstances, common control would generally not exist. However, if there is evidence that they consistently act together in making significant decisions, common control may exist.

Accordingly, determining whether common control exists in family-owned structures requires an assessment of all relevant facts and circumstances.



KEY TECHNICAL CHALLENGES AND RELEVANT GUIDANCE

Issue	Relevant Guidance	Summary of Guidance
Determination of Date of acquisition (i.e. date of obtaining control) and whether the transaction qualifies as a business combination under common control	ITFG Bulletin 12, Issue 8	Clarifies the date of acquisition under different scenarios and Appendix C applies only where the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and such control is not transitory. Where these conditions are not met, acquisition accounting under Ind AS 103 applies.
Selection of carrying values	ITFG Bulletin 9, Issue 2	Clarifies the basis of carrying values to be adopted in common control combinations and provides guidance on their application in standalone and consolidated financial statements.
Account Treatment of Demerger	ITFG Bulletin 16, Issue 5	Clarifies that common control demergers occurring after the transition date should be restated using the pooling of interests method under Appendix C. However, if a court-approved scheme prescribes a different accounting treatment, the scheme takes precedence.
Accounting of a common control merger approved after the reporting date.	ITFG Bulletin 14, Issue 4	Clarifies that a common control business combination approved after the reporting date can still be accounted for in the reporting period financial statements if it qualifies as an adjusting event.
Accounting for common control transactions on first-time adoption of Ind AS	ITFG Bulletin 15, Issue 6	Provides guidance where common control transactions coincide with transition to Ind AS and the applicability of Appendix C during transition to Ind AS.

CONCLUSION

The assessment of a Business Combination Under Common Control focuses on the economic substance of the transaction. A non-transitory common control relationship is essential to determine the appropriate accounting treatment. From an accounting perspective, transactions that qualify as common control are accounted for under Appendix C to Ind AS 103 using the Pooling of Interests Method. Under this approach:

- Assets and liabilities are recorded at their existing carrying amounts
- No goodwill is recognised
- The identity and nature of reserves of the transferor entity is retained
- Difference between the consideration and net assets acquired is adjusted in equity

Accordingly, the determination of whether a transaction falls within the scope of common control is a critical judgment, as it directly impacts the accounting treatment and presentation of the transaction in the financial statements.



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CONTACT US

For any content related queries, you may please write to the service line experts at accountingadvisory@bdo.in

For any other queries or feedback, kindly write to us at marketing@bdo.in

BDO INDIA OFFICES

Ahmedabad

BDO India LLP
Westgate Business Bay, Block - A,
Level-6, Opp. Nirvana Party Plot,
S.G. Highway, Ahmedabad - 380051, INDIA

Bhopal

Floor 3, Pradhan Business Center
Ansal Pradhan Enclave, E 8 Arera
Colony Near Dana Pani Square,
Bhopal 462026, INDIA

Coimbatore

Pacom Square, Floor 3, 104/1, Sakthi
Main Road, Bharathi Nagar, Ganapathy
Coimbatore 641006, INDIA

Goa

BIZ - Nest, Floor 7
A Wing, Sunteck Corporate Park
Opp. Shram Shakti Bhavan, Patto
Panaji, Goa 403001, INDIA

Kolkata

Floor 4, Duckback House
41, Shakespeare Sarani
Kolkata 700017, INDIA

Mumbai - Office 3

Floor 20, 2001 & 2002 - A Wing, 2001-
F Wing Lotus Corporate Park, Western
Express Highway, Ram Mandir Fatak Road,
Goregaon (E) Mumbai 400063, INDIA

Pune - Office 2

Floor 2 & 4, Mantri Sterling, Deep Bunglow
Chowk, Model Colony, Shivaji Nagar
Pune 411016, INDIA

Bengaluru - Office 1

Prestige Nebula, Floor 3
Infantry Road
Bengaluru 560001, INDIA

Chandigarh

Plot no. 55, Floor 5
Industrial & Business Park
Phase 1, Chandigarh 160002, INDIA

Delhi NCR - Office 1

Magnum Global Park, Floor 21, Archview
Drive, Sector 58, Golf Course Extn Road
Gurugram 122011, INDIA

Hyderabad

1101/B, Manjeera Trinity Corporate
JNTU-Hitech City Road, Kukatpally
Hyderabad 500072, INDIA

Mumbai - Office 1

The Ruby, Level 9, North West &
South East Wings, Senapati Bapat Marg
Dadar (W), Mumbai 400028, INDIA

Mumbai - Office 4

2nd floor, Empire Complex
414, Senapati Bapat Marg
Lower Parel West,
Mumbai 400013, INDIA

Vadodara

1008, Floor 10, "OCEAN", Sarabhai
Compound, Nr. Centre Square Mall,
Dr. Vikram Sarabhai Marg Vadodara
390023, INDIA

Bengaluru - Office 2

SV Tower, No. 27, Floor 3 & 4
80 Feet Road, 6th Block, Koramangala
Bengaluru 560095, INDIA

Chennai

Olympia Cyberspace, Floor 10, Module 4
No: 4/22 Arulayiammanpet, SIDCO Industrial
Estate Guindy, Chennai 600032, INDIA

Delhi NCR - Office 2

Windsor IT Park, Plot No: A-1
Floor 2, Tower B, Sector 125
Noida 201301, INDIA

Kochi

XL/215 A, Krishna Kripa
Layam Road, Ernakulam
Kochi 682011, INDIA

Mumbai - Office 2

601, Floor 6, Raheja Titanium, Western
Express Highway, Geetanjali Railway
Colony, Ram Nagar Goregaon (E),
Mumbai 400063, INDIA

Pune - Office 1

Floor 6, Building No. 1
Cerebrum IT Park, Kalyani Nagar
Pune 411014, INDIA

Ahmedabad | Bengaluru | Bhopal | Chandigarh | Chennai | Coimbatore | Delhi | Goa | Hyderabad | Kochi | Kolkata | Mumbai | Pune | Vadodara

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