



Valuation under Ind AS

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India, in line with its commitment to the G-20, has chosen the path of convergence with the International Financial Reporting Standards (IFRS) in the form of Indian Accounting Standards (Ind AS).

The consolidated impact of this convergence will result in significant differences in preparation and presentation of the financial statements, paving the way for added transparency, enriched quality and enhanced global comparability of financial statements. Adoption of Ind AS will lead to a significant increase in the focus on fair value accounting, since they are based on the principle of Fair Value Measurement (FVM), distinguishing it from the erstwhile Indian GAAP.

In lieu with the IFRS, there are certain carve out's and variation in terminology, keeping in mind the transition from the existing framework.

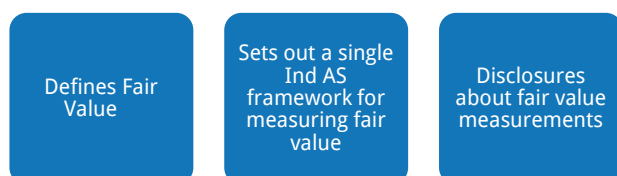
Ind AS is regarded as a new and comprehensive framework, having strategic advantages for India Inc., being considered as a landmark event in the fiscal history of India. The implementation and transition is a challenging affair, and crafting the right strategy and framework for its adoption and implementation will play a key role in the early realisation of the added benefits.

Fair value measurement is a fundamental concept forming the underlying basis for the Ind AS framework. Fair valuation of certain assets and liabilities is a prerequisite for the adoption of Ind AS. In line with these requirements, this document aims to signify the following objectives:

- To determine the valuation requirements under the Ind AS framework
- To ascertain the impact of fair value measurement on the financial position of the entity.

Ind AS 113: Fair Value Measurement

Objectives



Key Principles

“Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

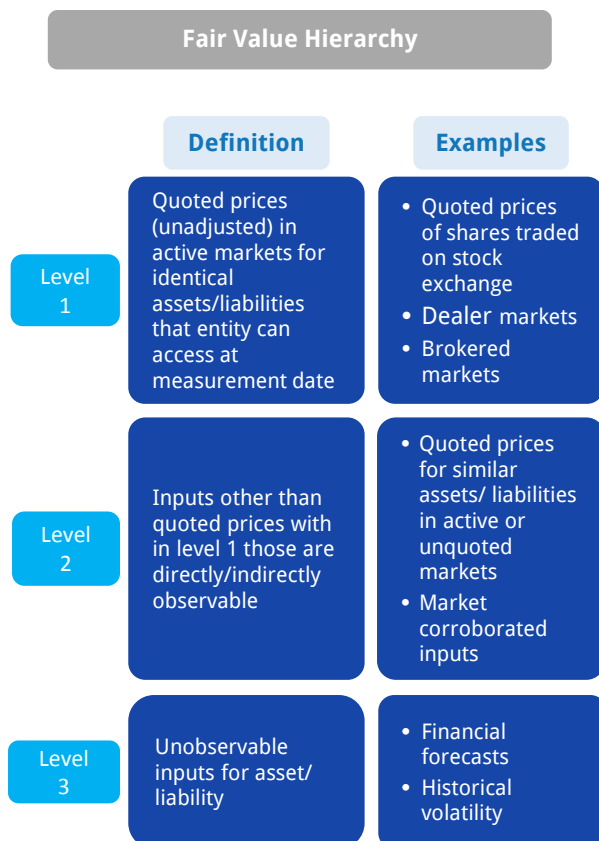
A fair value measurement requires determination of the following:

- The particular asset or liability that is the subject of measurement
- The highest and best use for a non-financial asset
- The principal (or most advantageous) market
- Fair value hierarchy
- The valuation technique

Ind AS 113 addresses how to measure fair value, but does not stipulate when fair value can or should be used.

Fair Value Hierarchy

To increase the consistency and comparability in fair value assignments and related disclosures, fair value hierarchy categorises inputs into three levels as defined below.



*Quoted prices are given the highest priority and unobservable inputs the least.

Valuation techniques prescribed in Ind AS 113

Valuation techniques maximise the use of observable inputs (level 1 inputs) and minimise the use of unobservable inputs (level 3 inputs).

Factors that need to be considered while selecting a valuation technique to measure fair value are:

- Appropriateness in the given facts and circumstances
- Availability of sufficient data
- Maximising the use of relevant observable inputs and minimising the use of unobservable inputs and as a result, multiple-valuation techniques can be applied.

Three widely used valuation techniques are:

- **Market Approach**
Market Approach uses prices and other relevant information generated by market transactions involving comparable assets/liabilities/business, and considers qualitative and quantitative factors (Comparable Companies Valuation Method) by using market multiples (EBITDA, revenue, etc.) or matrix pricing (compare with benchmark securities).
- **Cost Approach**
Cost Approach reflects the amount that would be required currently to replace the service capacity of an asset. This approach is ideally used for tangible assets (Replacement Cost method).
- **Income Approach**
Income Approach converts future amounts to the current (i.e. discounted) amount (for example Cash Flows or Income and Expenses) resulting in the current market expectations about those future amounts. For example, Present Value Techniques, Option Pricing Models, Multi-period Excess Earning Method, etc.

If multiple valuation techniques are used to measure fair value, the results should be evaluated considering the reasonableness of the range of values. Fair value is the point within the range that is most representative of the fair value in the given scenario.

Change in valuation techniques

Valuation techniques used to measure fair value shall be applied consistently. However, a change in the valuation technique or application of multiple valuation techniques is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances.

Examples:

- New markets develop or market conditions change
- New information is available
- Information previously used is no longer available
- Valuation techniques improve

Disclosures

Ind AS 113 aims to equip the users of financial statements with additional transparency with respect to the following:

- The extent of usage of fair value in valuation of assets and liabilities
- Valuation techniques, inputs and assumptions used in measuring fair value
- The impact of level 3 fair value measurements on profit and loss account or Other Comprehensive Income (OCI).

The standard has set broad disclosure objectives and has also stipulated the minimum disclosures an entity must make.

Ind AS 36: Impairment of Assets

Objectives

To prescribe the procedures to be applied by an entity to ensure that the assets stated in the financial statements are not carried at an amount more than the recoverable amount.

To observe if indications of impairment

To measure Recoverable amount and compare it with carrying amount

Impair, if the carrying amount is greater than recoverable amount

Impairment indicators

Indicators for impairment may exist due to external factors (economic conditions) or internal factors that are specific to the entity. If any such indications exist, the asset needs to be tested for impairment.

For certain assets like an intangible asset with an indefinite useful life or an intangible asset which is not yet available for use or goodwill acquired in business combination, impairment testing should be mandatorily carried out, at least annually, even if no indications for impairment exist.

Measurement

Recoverable amount is the higher of Value in Use (VIU) or Fair Value Less Cost of Disposal (FVLCD).

Fair value less costs of disposal (FVLCD)

It is the amount from the sale of an asset or Cash Generating Unit (CGU) in an arm's length transaction, less the cost of disposal. Ind AS 113 doesn't limit the types of valuation techniques that can be used to determine the fair value. The cost of disposal includes legal costs, stamp duty and similar transaction taxes, the cost of removing the asset, and direct incremental costs to bring an asset into a condition for sale (excluding finance costs and income tax expense).

Value in Use (VIU)

VIU is determined by estimating the future cash flows that can be derived from continuous use of the asset, including realisable value upon the ultimate disposal and discounting it at an appropriate rate after considering risks, premiums or discounts that are applicable.

Recoverable amount is compared with carrying value and if the carrying value is higher, the reduction from carrying value to the recoverable amount is determined as an impairment loss.

Impairment loss for a Cash Generating Unit (CGU)

The impairment loss shall be allocated to reduce the carrying amount of the assets of the CGU (group of units), first to reduce the carrying amount of any goodwill allocated to such CGU; and then, to the other assets of the CGU on a pro-rata basis of the carrying amount of each asset in such CGU.

Reversing an impairment loss

If there is a change in the estimates used to determine the asset's recoverable amount, the impairment loss recognised in prior periods for an asset other than goodwill shall be reversed since the last impairment loss was recognised.

Key Disclosures

- Amount of impairment loss determined or reversed during the period
- Basis used for determining recoverable amount (Fair Value Hierarchy as per Ind AS 113)
- Key assumptions and the discount rate considered for determining the VIU.

Ind AS 103: Business Combinations

Objectives

Recognition and measurement of assets and liabilities

Recognition and measurement of goodwill/gain on purchase

Disclosure pertaining to business combination

Applicability

This standard applies to business combinations including amalgamations, acquisitions and common control business combinations. It does not apply to the formation of joint arrangements, acquisition of asset/group of assets that do not constitute a business and acquisition of interest by an investment entity (subsidiary).

Measurement at recognition

The initial recognition of assets and liabilities depends on the accounting treatment of such business combination.

1. Acquisitions accounted for using the **acquisition method** requires the initial recognition as follows:
 - Recognising and measuring all the identifiable assets, whether tangible or intangible, acquired (including the assets that are not previously recognised in the books of acquiree, if any) and liabilities assumed at fair values as per Ind AS 113 - Fair Value Measurement
 - Any contingent consideration forming part of the transaction also needs to be accounted at fair value as per Ind AS 109.

2. Common control business combinations (where all the combining entities are ultimately controlled by the same party/parties both before and after the business combinations) are to be accounted using **pooling of interest method**. Under pooling of interest method, all the assets and liabilities are initially recognised at their carrying values existing in the books of the acquiree and the difference between the purchase consideration and share capital of the transferor is to be adjusted to the capital reserve in the books of the acquirer.

Measurement after recognition

The assets acquired and liabilities assumed and equity instruments issued in a business combination shall be subsequently measured in accordance with the applicable Ind AS, except for the following:

- If the contingent consideration is classified as equity, there is no need to re-measure the assets acquired and liabilities assumed subsequently.
- Contingent consideration is within the scope of Ind AS 109 - It is to be measured at fair value at each reporting date in accordance with Ind AS 109. If it is not within the scope of Ind AS 109, it shall be measured at fair value at each reporting date in accordance with Ind AS 113.
- Goodwill resulting from transactions - it is to be recognised as an asset and tested annually for impairment or more frequently, even if there is no indication of impairment as per Ind AS 36 - Impairment of Assets.

Ind AS 109: Financial Instruments

Objectives

Establish principles for presenting financial instruments as liabilities or equity

Establish principles for financial reporting of financial assets and financial liabilities

Measurement at recognition

All financial assets and liabilities are measured initially at fair value under Ind AS 109. Fair value is the amount for which an asset could be exchanged,

or a liability settled, between knowledgeable and willing parties in an arm's length transaction. It is normally the transaction price.

The way financial instruments are classified under Ind AS 109 drives how they are measured and where measurement changes are accounted for.

Measurement after recognition

Measurement of financial instruments depends on their respective classification and should be valued on the measurement date.

Classification	Fair valuation required
Financial assets measured at amortised cost	X
Financial assets measured at Fair Value Through Profit and Loss (FVTPL)	✓
Financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI)	✓
Financial liability measured at FVTPL	✓
Financial liability measured at amortised cost	X

Ind AS 28: Investment in Associates and Joint Ventures

Objectives

Accounting for investments in associates

Equity method for investments in associate and joint ventures

Measurement on acquisition

Investment in an associate or a joint venture should be accounted using the equity method. Under the method, investment is initially recognised at cost i.e. purchase price and any directly attributable expenditures necessary to acquire that investment.

Upon the acquisition of the investment, the difference between the cost of investment and investee's share of the net fair value of the identifiable assets and liabilities is accounted as follows:

- **Goodwill** - if the cost of investment is greater than investee's share of net fair value of assets and liabilities
- **Capital Reserve** - if investee's share of net fair value of assets and liabilities is greater than the cost of investment.

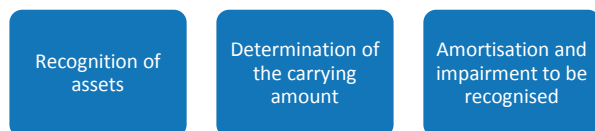
This goodwill is to be adjusted with the carrying amount of the investment and is not eligible for amortisation and cannot be tested for impairment separately.

Measurement after acquisition

The investments in an associate or joint venture are to be tested for impairment in accordance with the Ind AS 36, as single assets if there are impairment indicators.

Ind AS 38: Intangible Assets

Objectives



Recognition

An intangible asset shall be recognised if:

- The entity controls the asset as a result of past events;
- It is probable that future economic benefits associated with the item will flow to the entity; and
- The cost of the item can be measured reliably.

Measurement at recognition

An asset that qualifies for recognition as an intangible asset shall be measured at its cost.

- **Acquisition:** If acquired in a separate acquisition, cost includes the purchase price (net of discounts and rebates) and any directly attributable cost of

bringing the asset to working condition for its intended use (inclusive of import duties and non-refundable purchase taxes)

- **Business Combinations:** If acquired in business combinations, the cost shall be the fair value at the acquisition date.
- **Government Grant:** If acquired by way of a government grant, an entity should recognise both the intangible asset and the grant initially at fair value as per Ind AS 20
- **Acquisition for a non-monetary consideration:** If acquired in an exchange of non-monetary considerations, the cost shall be the fair value of the asset given up or the fair value of the asset received, whichever is more evident. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Measurement after recognition

An entity shall choose either the 'Cost model' (intangible asset carried at cost less, the accumulated amortisation and any impairment losses) or the 'Revaluation model' (intangible asset carried at revalued amount less, the accumulated amortisation and subsequent accumulated impairment losses) as its accounting policy for an entire class of intangible assets.

Revaluation of Intangible Asset

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from its fair value. If an item of the intangible asset is revalued, the entire class of intangible assets to which that asset belongs shall be revalued. The frequency of revaluations depends upon the changes in fair value of the intangible asset being revalued. When the fair value of a revalued asset differs materially from its carrying amount, further revaluation is required.

Amortisation and impairment

An intangible asset is to be amortised over its useful life. To determine whether an intangible asset is impaired, an entity applies Ind AS 36 - Impairment of Assets.

Ind AS 102: Share-based Payment

Objectives

Financial reporting of a share-based payment arrangement

Recognition and presentation of effects of share based payments in the P&L and balance sheet

Financial reporting of transactions involving grant of share options to employees

Share-based payment transaction is a transaction in which the entity:

- Receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment agreement; **or**
- Incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

Share-based payment arrangement may be defined as an agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:

- Cash or other assets of the entity for amounts that are based on the price (or value) of the equity instruments (including shares or share options) of the entity or another group entity; **or**
- Equity instruments (including shares or share options) of the entity or another group entity.

Applicability

Ind AS 102 is applicable to all share-based payments including:

- Equity-settled share-based payment transaction
- Cash-settled share-based payment transaction
- Share-based payment transactions with alternatives.

Recognition

All transactions involving share-based payment are recognised as expenses or assets over the underlying vesting period.

Transactions with employees are to be measured at the date of grant and those with non-employees are measured when goods or services are received.

Measurement for Equity-Settled share-based payment transaction

Goods or services received by an entity are directly measured at fair value of such good or services received. In case fair value cannot be estimated reliably, the fair value is measured indirectly with reference to the fair value of the equity instruments granted.

Measurement for Cash-Settled share-based payment transaction

Goods or services received by an entity and the liability incurred will be measured at the fair value of the liability. The liability has to be re-measured at each reporting date up to the date of settlement, and the changes in the fair value are to be recognised in the profit and loss account for the period.

Measurement for transactions with employees

In case of transactions with employees, the fair value of the equity instruments must be used. In case fair value cannot be measured reliably, the intrinsic value of the equity instruments may be used.

Disclosure

An entity shall disclose the information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period.

This Standard uses the term 'fair value' in a way that differs in some respects from the definition of fair value in Ind AS 113, Fair Value Measurement. Therefore, when applying Ind AS 102, an entity measures fair value in accordance with this Standard, not Ind AS 113.

Ind AS 16: Property, Plant and Equipment

Objectives

Recognition of the asset as Property, Plant or Equipment

Determination of carrying amounts

Depreciation and impairment to be recognised

Recognition

The cost of an item of property, plant and equipment (PPE) shall be recognised as an asset if:

- It is probable that future economic benefits associated with the item will flow to the entity; and
- The cost of the item can be measured reliably.

Measurement at recognition

An item of PPE that qualifies for recognition as an asset shall be measured at its cost. The cost includes the purchase price (net of discounts and rebates), any directly attributable cost of bringing the asset to working condition for its intended use (inclusive of import duties and non-refundable purchase taxes) and the initial estimates of dismantling and removing the item and site restoration costs.

Measurement after recognition

An entity shall choose between the Cost model (PPE carried at historical cost less the accumulated depreciation and any impairment losses) and the Revaluation model (PPE carried at revalued amount less the accumulated depreciation and subsequent accumulated impairment losses) as its accounting policy for an entire class of PPE.

Revaluation of PPE

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If an item of PPE is revalued, the entire class of PPE to which that asset belongs to shall be revalued to establish a link between revaluation and fair value. The frequency of revaluations depends upon the changes in fair values of the items of PPE being

revalued. When the fair value of a revalued asset differs materially from its carrying amount, further revaluation is required.

Depreciation and Impairment

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

To determine whether an item of property, plant and equipment is impaired, an entity applies Ind AS 36 - Impairment of Assets.

Ind AS 40: Investment Property

Objectives

Recognition of the investment property

Determination of carrying amounts

Derecognition of asset in certain cases

Recognition

Investment property is held to earn rentals, for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. It shall be recognised as an asset only when:

- It is probable that future economic benefits associated with the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

Measurement at recognition

Initial recognition of the asset is at cost. If it is a purchased invested property, the cost is purchase price and it includes any directly attributable expenditure including transaction costs. Cost excludes any start-up costs, operating losses incurred before the investment property achieves the planned level of occupancy and any abnormal losses incurred during the construction or developing period of the property.

Measurement after recognition

An entity shall follow 'Cost model' (carried at historical cost less the accumulated depreciation and any impairment losses) as its accounting policy for all the investment property.

However, the fair value of the investment property is to be disclosed, even cost model is followed and the impairment is to be done in accordance with Ind AS 36 if the carrying value is greater than the fair value.

Transfer

When there is a change in use for the investment property i.e. when the investment property is intended to be used for production or administrative purposes (owner-occupied property) or when it is held for sale (inventory), the carrying amount of the property transferred will remain the same for measurement or disclosure purposes.

Disposals

An investment property shall be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal or by entering into finance lease.

The difference between the net disposal proceeds and the carrying amount of the asset shall be recognised in profit or loss.

Key Disclosure

- Accounting policy for the measurement of investment property and amounts recognised as profit or loss for the year, if any.
- Disclosure of fair value of the property based on the valuation of the independent valuer who holds a recognised and relevant professional qualification.

Ind AS 41: Agriculture

Objectives

Agricultural Activity

Recognition and measurement

Disclosures

Applicability

This standard applies to biological assets, agricultural produce at the point of harvest and government grants related to a biological asset.

Recognition

An entity shall recognise a biological asset or agricultural produce if:

- The entity controls the asset as a result of past events;
- It is probable that future economic benefits associated with the asset will flow to the entity; and
- The fair value or cost of the asset can be measured reliably.

Measurement

The fair value of biological assets and agricultural produce at the point of harvest to be measured in accordance with Ind AS 113 - Fair Value Measurement:

- A biological asset needs to be measured on **initial recognition**, as well as at the **end of each reporting period** at its fair value less the costs to sell, unless the fair value cannot be determined reliably on initial recognition (in such case, measure at its cost less any accumulated depreciation and any accumulated impairment losses).
- Agricultural produce harvested from an entity's biological assets should also be measured at its fair value less the costs to sell at the point of harvest.

Disclosures

Aggregate gain or loss arising during the current period on initial recognition of biological assets, agricultural produce and from the change in fair value less the costs to sell off biological assets.

Transitional Requirements

Ind AS 101: First-time adoption of Ind AS, specifies the transitional requirements in order to facilitate the convergence of the existing Indian GAAP and Ind AS. A summary of transition applicability with respect to the discussed standards is given here:

Ind AS	Transition applicability
Ind AS 113: Fair Value Measurement	Prospectively
Ind AS 36: Impairment of Assets	Prospectively
Ind AS 103: Business Combinations	Retrospectively (Optional)
Ind AS 109: Financial Instruments	Retrospectively (Optional)/ Prospectively
Ind AS 28: Investment in Associates and Joint Ventures	Retrospectively (Optional)
Ind AS 38: Intangible Assets	Prospectively
Ind AS 102: Share-based Payment	Retrospectively (Optional)
Ind AS 16: Property, Plant and Equipment	Prospectively
Ind AS 40: Investment Property	Prospectively
Ind AS 41: Agriculture	Retrospectively

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