# IND AS 113

J P Chawla & Co. LLP

Chartered Accountants

Taxation | Audit | Outsourcing | Regulatory | Transaction Advisory | Consultancy Services

The Ind AS are converged IFRS standards, which have been introduced to standardize the way Indian companies report their financial information to various stake holders.

Reliable, consistent and uniform financial reporting is important part of good corporate governance practices worldwide in order to enhance the credibility of the businesses in the eyes of investors to take informed investment decisions. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Thirty-nine Indian Accounting Standards converged with International Financial Reporting Standards are (henceforth called IND AS) are currently notified by the Ministry. These are: IND ASs 1, 2, 7, 8, 10, 12, 16, 19, 20, 21, 23, 24, 27, 28, 29, 32, 33, 34, 36, 37, 38, 40,41, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110,111,112,113,114,115, 116.

Companies follow Ind AS either Voluntarily or Mandatorily. Once a company follows Indian AS, either mandatorily or voluntarily, it cannot revert to old method of Accounting.The Mandatory Applicability from Accounting Period beginning on or after 1 April 2017 is for :

- Every Listed Company or company in process of being listed.
- Unlisted Companies with Net worth greater than or equal to Rs. 250 crore (2.5 billion)

The Ministry of Corporate Affairs has implemented the IFRS converged Indian Accounting Standards in a phased manner after various issues including tax related issues have been resolved with the concerned departments.

We have prepared a simple analysis for below mentioned Ind AS for your ready reference which can act as ready-reckoner for your day to day use.

**Hope you enjoy reading our Analysis.**

**Happy reading!!**

**Team J P Chawla & Co. LLP**

**Rajat Chawla**

He is a Fellow member of the Institute of Chartered Accountants of India. He is also a C.P.A; Certified Public Accountant from The American Institute of Certified Public Accountants, United States of America. He is also a commerce honours graduate from Delhi University, Delhi, India. He is also a Certified Information System Auditor (C.I.S.A) and a member of Information system Audit and Control Association, United States of America.

His area of expertise includes Audit and Assurance, International Taxation ,Transfer Pricing, International business advisory, Valuations, FEMA/ RBI advisory, Goods & Service tax (GST), Merger and Acquisitions, Management consultancy, Due Diligence, Information system audit and development, reporting under US GAAP and IFRS, Accounting process improvement, Business process outsourcing, Knowledge process outsourcing and Business process off shoring.

He has been a regular speaker at various forums on various topics related to Tax, finance and commerce. He has also contributed in various tax publications as author / co-author. He has also co-authored two books on transfer pricing, published by Lexis – Nexis and Taxmann respectively.

**Mohit Dixit**

He is a member of the Institute of Chartered Accountants of India and he is also a commerce honours graduate from Delhi University.

He is having 5 + years of experience in the area of statutory audits, internal audits, assurance & Transaction Advisory related engagements in industries such as manufacturing, retail, infrastructure, information technology, e-commerce, banking, telecommunication, health and aviation sectors.

His area of expertise includes Indian GAAP and IND AS Advisory, Management accounting, outsourcing, audit & assurance, financial reporting and valuation.

## Ind AS-113Fair Value Measurement

The term 'Fair value' is used in Ind ASs. Most of the Ind ASs require the measurement or remeasurement at fair value.

What is fair value?

How it is to be determined?

***Why Ind AS 113?***

This Ind AS:

a) Defines fair value;
b) Sets out in a single Ind AS a framework for measuring fair value; and
c) Requires disclosures about fair value measurements.

This Ind AS applies when another Ind AS requires or permits fair value measurements or disclosures about fair value measurements.

***The measurement and disclosure requirements of this Ind AS do not apply to the following:***

- Share-based payment transactions within the scope of Ind AS 102, Share based Payment;
- Leasing transactions within the scope of Ind AS 17, Leases; and
- Measurements that have some similarities to fair value but are not fair value,such as net realisable value in Ind AS 2, Inventories, or value in use in Ind AS36, Impairment of Assets.

***The disclosures required by this Ind AS are not required for the following:***

a) Plan assets measured at fair value in accordance with Ind AS 19, Employee Benefits;
b) Assets for which recoverable amount is fair value less costs of disposal in accordance with Ind AS 36.

***Measurement***

***Definition of fair value***

This Ind AS defines fair value as 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.

Fair value is a ***market-based measurement, not an entity-specific measurement.*** For some assets and liabilities, observable market transactions or market information ***might be available or might not be available***.However, the objective of a fair value measurement in both cases is the same.

When a price for an identical asset or liability is not observable, an entity measures fair value using ***another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.***

### A. *Measurement for Asset or Liability*

A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

a) the condition and location of the asset; and
b) restrictions, if any, on the sale or use of the asset.

### *Assumptions in Fair Value Measurement*

- The asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.
- The transaction to sell the asset or transfer the liability takes place either:

  a) in the principal market for the asset or liability; or
  b) in the absence of a principal market, in the most advantageous market for the asset or liability.

- Market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
- The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

### B. *Application to non-financial assets*

**Highest and best use for non-financial assets**

Fair value measurement of a non-financial asset takes into accounta market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible.

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| If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities.<br>If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis. |

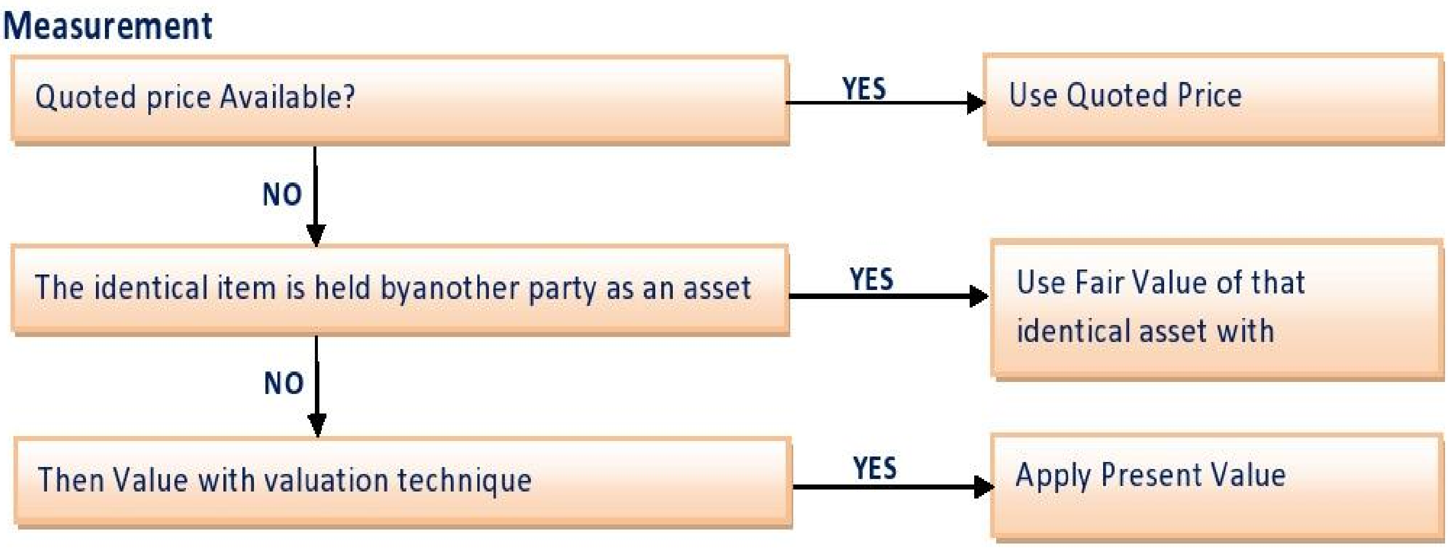
### C. *Application to liabilities and an entity's own equity instruments*

**Assumption**

Liability/ entity's own equity instrument would remain outstanding and the market participant transferee would be required to fulfil the obligation or take on the rights and responsibilities associated with the instrument.

The liability would not be settled with the counterparty or instrument would not be cancelled or otherwise extinguished on the measurement date.

**Means assume it would be a transfer of liability or own equity instrument and not a settlement.**




### D. Application to financial assets and financial liabilities with offsetting

- An entity that holds a group of financial assets and financial liabilities is exposed to market and to the credit risk of each of the counter parties.
- If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this Ind AS for measuring fair value.
- That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.
- Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

An entity is permitted to use the exception in paragraph 48 only if the entity does all the following:

- Manages the group in accordance with the entity's documentedrisk management or investment strategy
- Provides information to the entity's key management personnel
- Measure those financial assets and financialliabilities at fair value in the balance sheet at the end of each reporting period.

## *Valuation techniques*

An entity shall use valuation techniques that

- are appropriate in the circumstances and for which sufficient data are available to measure fair value,
- Maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

## *Approaches in valuation technique*

Three widely used valuation techniques are the

1. Market approach
2. Cost approach
3. Income approach

An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.

### Market approach

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.

### Cost approach

The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

### Income approach

The income approach converts future amounts (eg cash flows or income and expenses) to asingle current (ie discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

Those valuation techniques include:

- Present value techniques
- Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (ie a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and
- The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

## *Fair value hierarchy*

To increase consistency and comparability in fair value measurements and related disclosures, this Ind AS establishes a fair value hierarchy that categorises into three levels inputs to valuation techniques used to measure fair value.

The fair value hierarchy gives the highest priority Level 1 inputs and the lowest priority Level 3 inputs.

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| **Level 1 inputs** | Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.<br>A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available |
| **Level 2 inputs** | Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.<br>If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.<br>Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. |
| **Level 3 inputs** | Level 3 inputs are unobservable inputs for the asset or liability.Unobservable inputs shall be used to measure fair value to the extent that relevan to observable inputs are not available.<br>An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market. |

## *Disclosure*

An entity shall disclose information that helps users of its financial statements assess both of the following:

- For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements.
- for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

**Dear Valuable Client / Colleague,**

In case you require any further detailed analysis on above mentioned content, please do get back to us and we shall be happy to provide you the same.

**With Best Regards,**

**Team JPC**

## About JPC

JPC is a professional services firm based in Noida- National Capital Region and New Delhi, India. We were established in the year 1974 with the aim to create value for our clients by delivering quality, comprehensive, timely, practical and innovative services. We offer a comprehensive range of services, including taxation services, regulatory services, transaction advisory services, financial & management consultancy services, assurance & risk services, and outsourcing services. Over the past several decades, we have established significant competitive presence in the country. Our vast and diversified client base includes Multinational enterprises, domestic companies, high net worth individuals, government companies and institutions in all leading industry verticals. We are a team of distinguished Chartered Accountants, Management Accountants, Corporate Financial Advisors and Tax Consultants. Our team has the requisite skills and experience to provide complex business, financial, assurance, tax and regulatory services to our clients. Our strength lies in our timely performance-based, industry-tailored and technology-enabled services which are delivered by some of the most talented professionals in the country. For more information about JPC's service offerings, visit www.jpc.co.in

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