

Overview of IndAS and its relevance in Business Valuation

By CMA Pramod Jain

Chartered Accountant, Valuation Professional,
Insolvency Professional & Independent Director
Author of, "Finance For Value Creation" and "You Are A Born Winner"

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Online on Zoom for RVO of ICMAI.

Take all precautions, Stay Safe. Let us fight the Corona Virus together.

This Session will be useful for.....

- Valuation Professionals existing as well as new aspirants for these professions
- Accounting and Finance Professionals engaged in IndAS implementation in their respective organisations.
- Cost Accountants, Chartered Accountants, Company Secretaries and other Finance & Accounting Professionals, working as well as practicing ones
- Merchant Bankers, Investment Analysts, Financial Analysts and all professional engaged in implementation of IndAS in their respective organisations.
- All Accounts, Finance and Audit professionals entrusted with the responsibility of audit of IndAS based Accounts & Financial Statements.
- Students of CMA, MBA, CA, CS, CIMA, ACCA, CPA & others
- Finance & Accounts personnel of Banks, NBFCs and Insurance companies engaged in IndAS implementation in their respective organisations.

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Purpose of this Session

What we will cover today

- What is IndAS? Why IndAS? For whom IndAS?
- What all we need to know for it:
 1. Current Roadmap for implementation of IndAS in India by different entities
 2. Schedule III to the Companies Act, 2013 (Section 129)
 3. Framework for Preparation and Presentation of Financial Statements as per IndAS
 4. Overview of the entire canvass of Indian Accounting Standards (IndAS)
 5. IndAS which are common to all entities to whom IndAS have become mandatory
 6. IndAS which are applicable only in specific situations
 7. IndAS which require Fair Value Measurement
 8. Impairment of Assets (Ind AS 36);
 9. Business Combinations (Ind AS 103);
 10. Fair Value Measurement (Ind AS 113)

Roadmap for Implementation of IndAS in India for:

Companies,
Non-Banking Financial Companies (NBFC's)
Insurers/Insurance Companies and
Scheduled Commercial Banks (Excluding RRBs),

Current Roadmap for Companies other than banks, NBFCs and Insurance Companies

Phase I	1st April 2015 or thereafter: Voluntary Basis for all companies (with Comparatives)	
	1st April 2016: Mandatory Basis	
	(a)	Companies listed / in process of listing on Stock Exchanges in India or Outside India having net worth \geq INR 500 crore
	(b)	Unlisted Companies having net worth \geq INR 500 crore
	(c)	Parent, Subsidiary, Associate and Joint venture of above
Phase II	1st April 2017: Mandatory Basis	
	(a)	All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges)
	(b)	Unlisted companies having net worth of INR 250 crore or more
	(c)	Parent, Subsidiary, Associate and Joint venture of above

Roadmap For Non-Banking Financial Companies (NBFC's)

Phase I:	From 1st April, 2018 (with comparatives)
	NBFCs (whether listed or unlisted) having net worth INR 500 crore or more
	Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date
Phase II:	From 1st April, 2019 (with comparatives)
	NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than INR 500 crore
	NBFCs that are unlisted having net worth INR 250 crore or more but less INR 500 crore
	Holding, Subsidiary, JV and Associate companies of above other than those already covered under corporate roadmap shall also apply from said date

- Applicable for both Consolidated and Individual Financial Statements
- NBFC having net worth below INR 250 crore shall not apply Ind AS.
- Adoption of Ind AS is allowed only when required as per the roadmap. **Voluntary adoption of Ind AS is not allowed.**

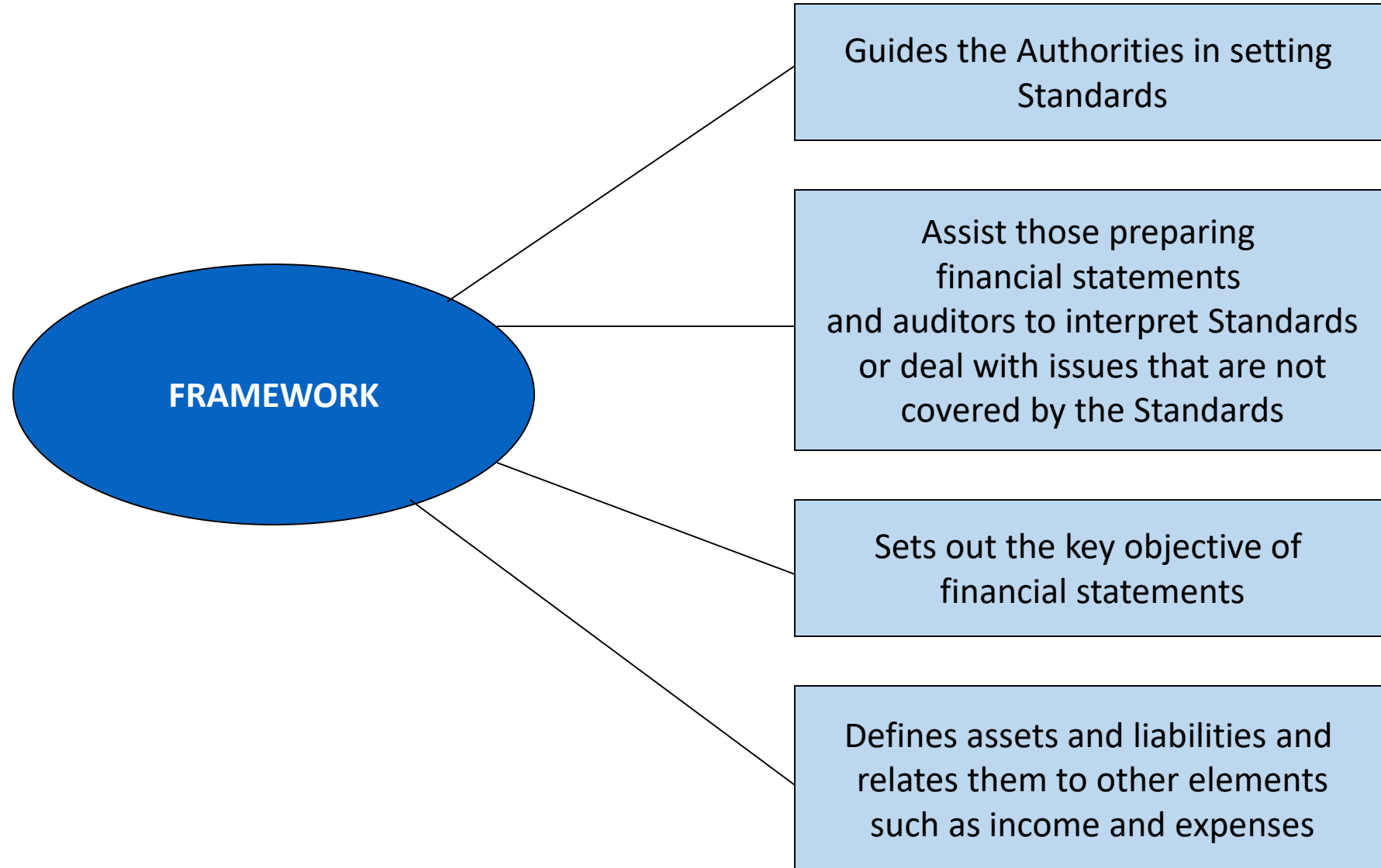
Division II & III to Schedule III to the Companies Act, 2013 (Section 129)

As per the Companies Act, 2013, Schedule III, there are three divisions namely-

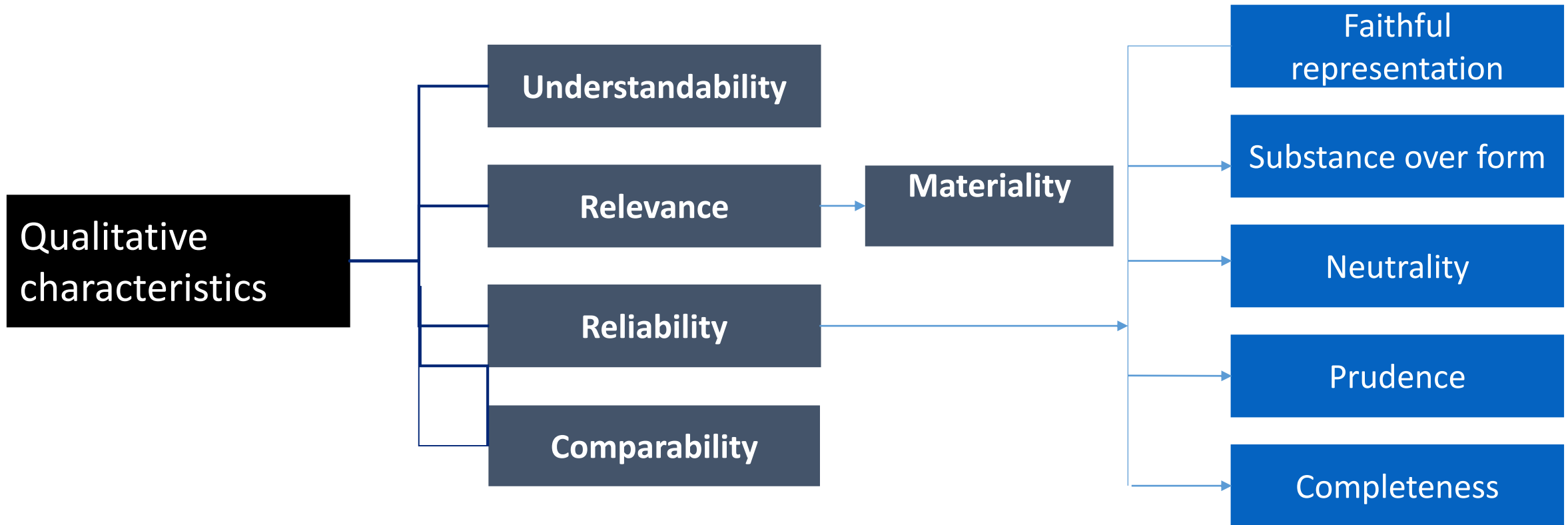
- 1. Division I**, which is applicable to a company whose financial statements are required to comply with the accounting standards.
- 2. Division II**, which is applicable to a company whose financial statements are drawn up in compliance with Ind AS.
- 3. Division III**, which is applicable to **Non-Banking Finance Companies** whose financial statements are drawn up in compliance with Ind AS.

Framework for Preparation and Presentation of Financial Statements as per IndAS

Framework is the foundation on which the Building of IndAS is built. It is also the Light House for Financial Accounting & Reporting



Qualitative aspects of Financial Statements



These are like drivers while preparing accounts based on IndAS.

Complete set of Financial Statements as per IndAS 1

1. Balance sheet as at the end of the period
 - Statement of financial position, under IFRS
2. A Statement of Profit and Loss for the period
 - Single statement with two sections for P&L and Other Comprehensive Income (OCI)
 - Statement of Comprehensive Income (SOCIE), under IFRS
3. Statement of Changes in Equity (SOCIE)
4. Statement of Cash Flows (SCF)
5. Notes including **significant accounting policies** and other explanatory information
6. **Comparative information** in respect of the preceding period
7. A Balance Sheet as at the beginning of the preceding period when an **entity applies Accounting policy retrospectively or makes a retrospective restatement of items as per** IndAS 8, in its financial statements or when it reclassifies items in its financial statements.

When will FSs of an entity shall be deemed to have been drawn as per IndASs.

An explicit and unreserved statement must in confirmation of compliance with the IndAS

IndAS Roadmap for preparation

Old series 23
New series 16
Total 39

Presentation and Disclosures

1. IndAS 1 – Presentation of Financial Statements
2. IndAS 7 - Statement of Cash flow
3. IndAS 8 - Accounting policies, Changes in Accounting Estimates & Errors
4. IndAS 10 - Events after the reporting period
5. IndAS 24 - Related Party disclosures
6. IndAS 29 – Financial Reporting in Hyperinflationary Economies
7. IndAS 32 – Financial Instruments : Presentation
8. IndAS 33 – Earning Per Share
9. IndAS 34 – Interim Financial Reporting
10. IndAS 102 – Share Based Payments
11. IndAS 105 – Non Current Assets Held for Sale & Discontinued Operations
12. IndAS 106 – Exploration for and Evaluation of Mineral Resources
13. IndAS 107 – Financial Instruments : Disclosures
14. IndAS 108 - Operating Segment
15. IndAS 114 – Regulatory Deferral Payments

Balance Sheet and P&L

1. IndAS 2 – Inventories
2. IndAS 12 – Income Taxes
3. IndAS 16 – Property Plant & Equipment
4. IndAS 19 – Employee Benefits
5. IndAS 20 – Accounting for Govt. Grants and disclosure of Govt. Asst.
6. IndAS 21 – The effects of changes in Foreign Exchange Rates
7. IndAS 23 – Borrowing Costs
8. IndAS 36 - Impairment
9. IndAS 37 - Provisions & Contingencies
10. IndAS 38 – Intangible Assets
11. IndAS 40 – Investment Property
12. IndAS 41 – Agriculture
13. IndAS 101 –First Time Adoption
14. IFRS 104 – Insurance Contracts
15. IndAS 109 – Financial Instruments
16. IndAS 113 – Fair Value Measurement
17. IndAS 115 – Revenue from Contract with customers
18. IndAS 116- Leases

Consolidation

1. IndAS 27 – Separate Financial Statements
2. IndAS 28 – Investments in Associates & Joint Ventures
3. IndAS 103 – Business Combinations
4. IndAS 110 – Consolidated Financial Statements
5. IndAS 111 – Joint Ventures
6. IndAS 112 – Disclosure of interests in other Entities

IndASs applicable to all companies

Old series 23
New series 16
Total 39

Presentation and Disclosures

1. IndAS 1 – Presentation of Financial Statements
2. IndAS 7 - Statement of Cash flow
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Balance Sheet and P&L

1. IndAS 2 – Inventories
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6. IndAS 36 - Impairment
7. IndAS 37 - Provisions & Contingencies
8. IndAS 101 –First Time Adoption
9. IndAS 109 – Financial Instruments
10. IndAS 113 – Fair Value Measurement
11. IndAS 115 – Revenue from Contract with customers

Consolidation

IndASs applicable only in case of specific situations

Presentation

1. IndAS 29 – Financial Reporting in Hyperinflationary Economies
2. IndAS 102 – Share Based Payments
3. IndAS 105 – Non Current Assets Held for Sale & Discontinued Operations
4. IndAS 106 – Exploration for and Evaluation of Mineral Resources
5. IndAS 108 - Operating Segment
6. IndAS 114 – Regulatory Deferral Payments

Financial Position & P&L

1. IndAS 20 – Accounting for Govt. Grants and disclosure of Govt. Asst.
2. IndAS 21 – The effects of changes in Foreign Exchange Rates
3. IndAS 38 – Intangible Assets
4. IndAS 40 – Investment Property
5. IndAS 41 – Agriculture
6. IFRS 104 – Insurance Contracts
7. IndAS 116- Leases

Consolidation

1. IndAS 27 – Separate Financial Statements
2. IndAS 28 – Investments in Associates & Joint Ventures
3. IndAS 103 – Business Combinations
4. IndAS 110 – Consolidated Financial Statements
5. IndAS 111 – Joint Ventures
6. IndAS 112 – Disclosure of interests in other Entities

IndAS requiring Fair Value Measurement

Old series 23
New series 16
Total 39

Presentation and Disclosures

1. IndAS 29 – Financial Reporting in Hyperinflationary Economies
2. IndAS 102 – Share Based Payments

Balance Sheet and P&L

1. IndAS 16 – Property Plant & Equipment
2. IndAS 19 – Employee Benefits
3. IndAS 20 – Accounting for Govt. Grants and disclosure of Govt. Asst.
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8. IndAS 40 – Investment Property
9. IFRS 104 – Insurance Contracts
10. IndAS 109 – Financial Instruments
11. IndAS 113 – Fair Value Measurement
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13. IndAS 116- Leases

Consolidation

1. IndAS 28 – Investments in Associates & Joint Ventures
2. IndAS 103 – Business Combinations
3. IndAS 111 – Joint Ventures
4. IndAS 112 – Disclosure of interests in other Entities

Discussion on few Key IndAS relevant to Valuation

1. IndAS 36 – Impairment of Assets
2. IndAS 103 – Business Combinations
3. IndAS 113 – Fair Value Measurement

IndAS 36 on Impairment of Assets

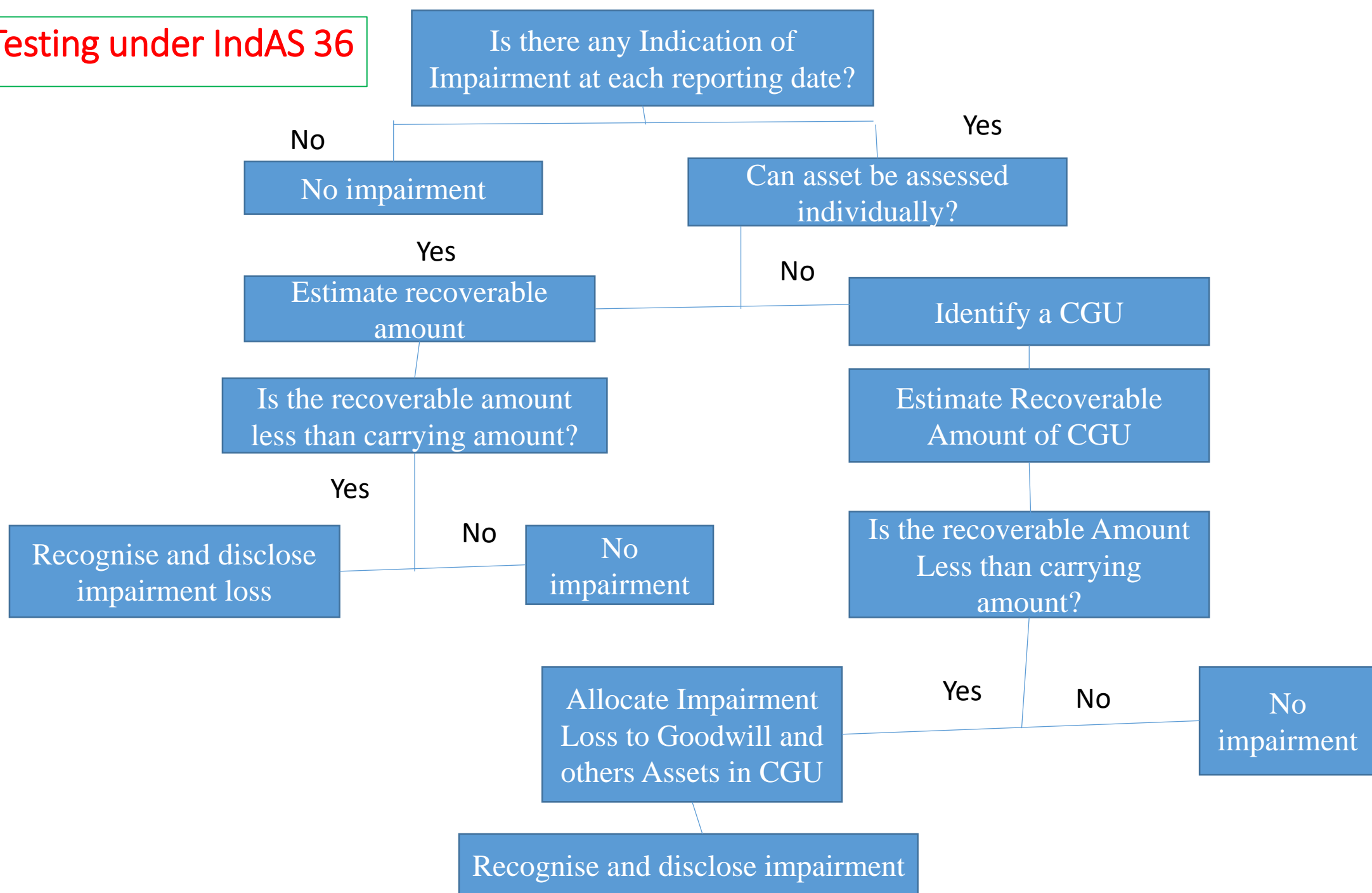
Valuation for Impairment Testing as per IndAS 36 on Impairment of Assets

- What is Impairment?
- What is Objective of IndAS 36?
- When does Impairment occurs?
 - When the Carrying amount is more than “higher of realizable value or Value in use”, there is Impairment
- What is Carrying Amount?
 - Carrying Amount / Book value of asset / WDV / Depreciated value, are all same
- What is:
 - Realizable value
 - Value in use
- How to determine the following?
 - Carrying Amount - as given in the BS
 - Realizable Amount – Probable sale proceeds minus expenses on sale.
 - Value in Use with use of DCF, Intrinsic Value.
- **What is the Role of a Valuer in case of Impairment Testing?**

Indicators of Asset Impairment

- Decline in the market value of similar assets or
- Sub-optimal demand for the goods produced
- Changes in the technological, market, economic or legal environment, adversely affecting the entity
- Evidence of obsolescence /physical damage
- Plans to discontinue / restructure operations
- Evidence from internal reporting

Impairment Testing under IndAS 36



A quick Test for Impairment of an Asset under IndAS 36

	1	2	3	4	5	6
Carrying Amount	10000	10000	10000	10000	10000	10000
Realizable Amount	11000	10000	9000	10000	9000	8000
Value in Use	12000	10000	10000	9000	8000	9000
Impairment Yes / No						

Response to the quick Test for Impairment

	1	2	3	4	5	6
Carrying Amount	10000	10000	10000	10000	10000	10000
Realizable Amount	11000	10000	9000	10000	9000	8000
Value in Use	12000	10000	10000	9000	8000	9000
Impairment Yes / No	No	No	No	No	Yes	Yes

IndAS 103 – Business Combinations

IndAS 103 on Business Combinations and Valuations

- What is Business Combination?
- What is IndAS 103 about?
- What is the purpose of IndAS 103
- What is Purchase Price Allocation?
- How is Purchase Price Allocation carried out?
- How to account for the Assets acquired as Business Combination?
- How goodwill gets created as per IndAS 103?
- What is bargain purchase?
- How to recognise the bargain purchase?
- **What is the Role of a Valuer under IndAS 103?**

Purchase Price Allocation required for financial reporting as specified IndAS 103 on Business Combinations

Recognition Criteria for the Intangibles in the books

Is the asset separable from goodwill, or does it arise from contractual and / or legal rights

No

Not an intangible asset

Yes

Can the value of the asset be determined reliably?

No

The asset is a component of goodwill

Yes

Select an appropriate method
For valuation of Intangible and
recognise the Intangible asset

IndAS 113 – Fair Value Measurement and Valuations

Valuation Techniques as per IndAS 113

- No particular technique mandated by IndAS 113.
- Valuation technique which an entity uses must maximize the use of relevant **observable inputs** and minimize the use of **unobservable inputs**
- Approaches prescribed under IndAS 113:

Income
Approach

Market
Approach

Cost
Approach

IndAS 113 prescribes Fair Value hierarchy for value measurement:

- What is the meaning of Fair Value Hierarchy?

Level 1 Input

- **Quoted prices (unadjusted)** in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 Input

- **Inputs other than quoted prices** included within Level 1 that are **observable** for the asset or liability, either directly or indirectly **using the multiples.**

Level 3 Inputs

- **Unobservable inputs** for the asset or liability.
- **Will DCF method fit here?**

Common financial multiples as per level 2 of the FVM Hierarchy

Multiple	Rationale
Cashflow multiple	<ul style="list-style-type: none">• Firm Value / Cashflow of the Firm,
Sales Multiples	<ul style="list-style-type: none">• Used for early stage companies which are loss making at the EBITDA or PAT level.• Applicable even when earnings are highly cyclical
EBITDA Multiple	<ul style="list-style-type: none">• EV arrived based on the EV/EBITDA multiple is subsequently adjusted with net debt to arrive at the equity value.
PAT Multiple or Price to Earning (P/E) Method	<ul style="list-style-type: none">• This metric is ideal for helping investors understand exactly what the market is willing to pay for the company's earnings, when you reverse the multiple to E/P.
Asset Multiple	<ul style="list-style-type: none">• Extensively used in valuing Financial companies

Non-financial multiples as per level 2 of the FVM Hierarchy

Multiple	Rationale
	<ul style="list-style-type: none">These metrics are best used in addition to financial metrics for benchmarking.
EV / Capacity	For a cement company or a refine
EV / Tower	For a passive infrastructure company
EV / Bed	Hospital and health care facilities
EV / MW	Power companies
EV / Reserves	Mining companies
Customer multiple	Firm value / customers

Q & A

Video recordings of all the sessions are available on the Facebook page and YouTube Channel of PBS of PCET together with the PPTs.

You can visit the same for reviewing and also to share the same with your friends, colleagues and acquaintances. Links are given here.

<https://youtu.be/DGAmcwN8ASI>

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Also on CA Pramod Jain's YouTube Channel:

<https://www.youtube.com/watch?v=LHofRaXb6bg&t=149s>

Introduction – CA Pramod Jain

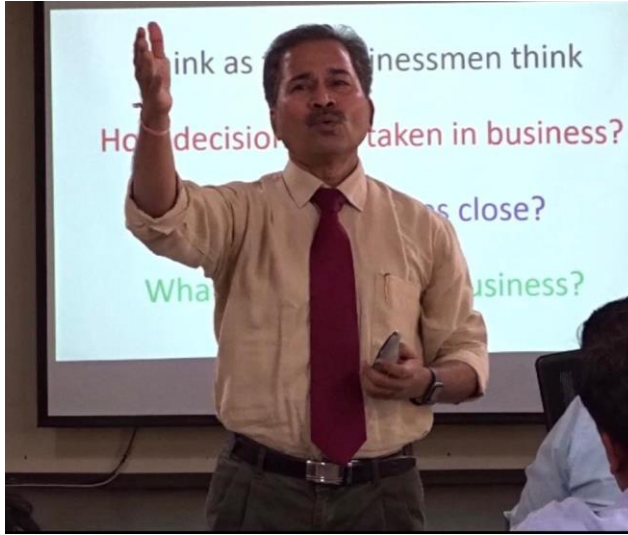
1. Have been in corporate for over **three decades** holding senior positions as Finance Head, Legal Head and Company Secretary of local and MNCs.
2. For six years, Head of Training in Finance for a Fortune 500 company, **ArcelorMittal**, global Steel & Mining major.
3. Delivered training programs in more than **50 locations across five continents** on a wide range of topics, including USA, Canada, Brazil, Luxembourg, Dubai, France, Costa Rica, Germany, South Africa, Singapore, Malaysia and Russia.
4. Is a much globally sought after **Business & Life Coach**, Motivational Speaker and Corporate Trainer.
5. On the Board of Suratwwala Business Group Limited, as an **Independent Director**.
6. **On the Governing Board of Pune Business School of PCET, Pune**
7. Presently, Practicing as Chartered Accountant, Insolvency Professional, and Valuation Professional
8. Possess **16 qualifications** including CA, CS, CMA, PGDFA, CFA, MBA and LL.B.
9. Have **authored two Books**, “Finance for Value Creation” & “You Are A Born Winner”.
10. Passionate about **Yoga, Marathon, Cycling, Tennis, Squash and Golf**. Also conducts regular Yoga sessions for others.
11. His **YouTube Channel has more than 400 videos** recorded from the training programmes delivered on diverse topics such as Finance, Valuation, IndAS, IBCE, Economy, Work Life Balance, Yoga, Meditation, Strategy and Leadership.
12. To know more about him, please click on: <https://www.linkedin.com/in/capramodjain/>.
13. To watch his training videos, visit his YouTube Channel: <https://www.youtube.com/channel/UCvZDIzA75gE56nnb1XwvrNA>

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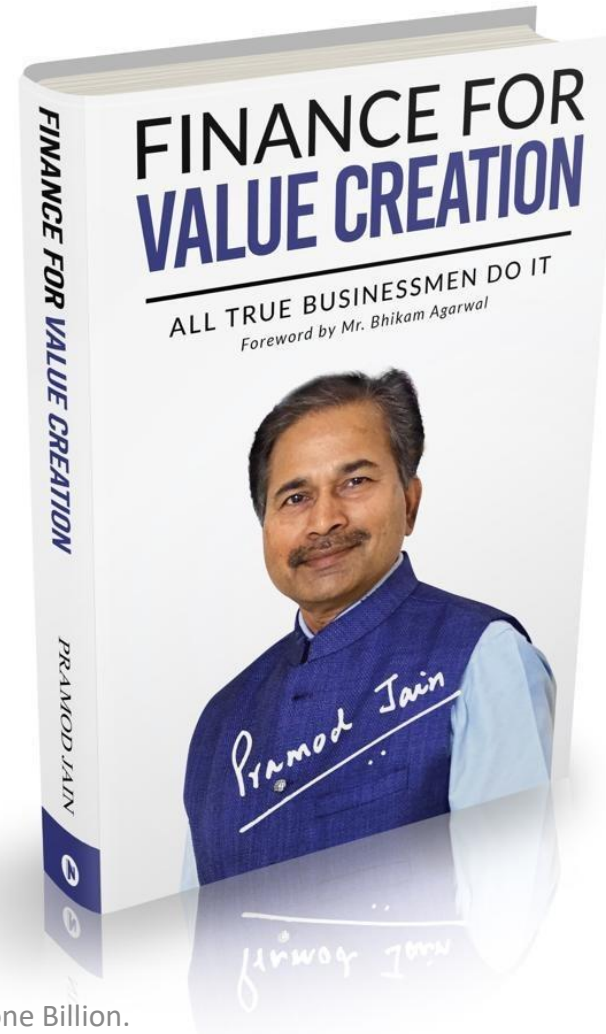
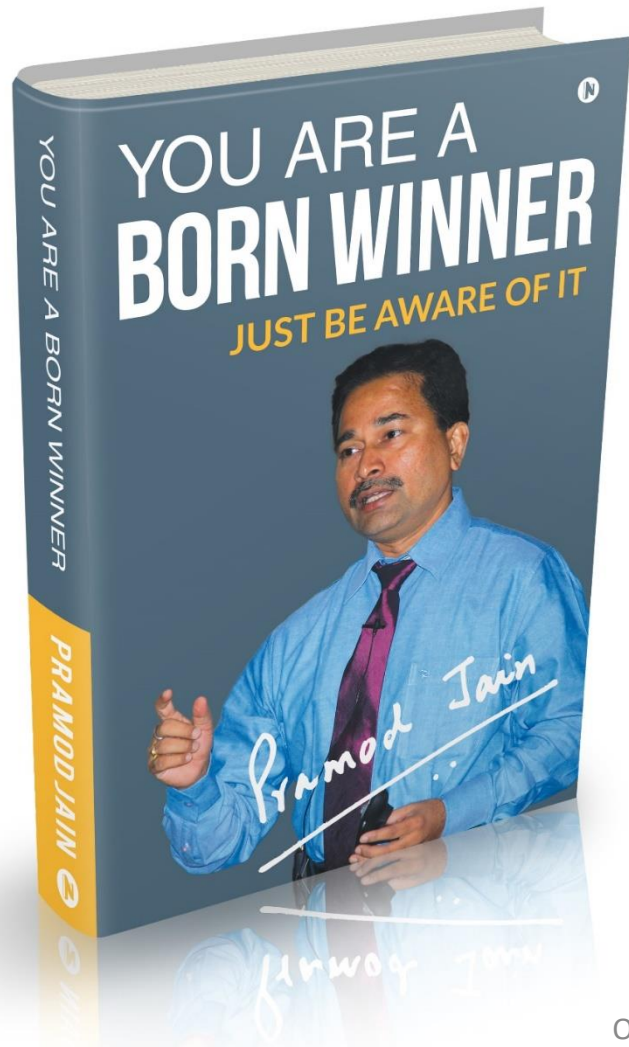
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“Including Motivation & Key Note Addresses”



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pramod7jain@gmail.com

Mobile & WA Number : 9766034562

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