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IND AS 113; FAIR VALUE MEASUREMENT AND ITS EFFECTS ON FINANCIAL RESULTS;

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ABSTRACT Due to globalization an uniform accounting system is required for better comparison of inter and intra firm performances, common terms to be used in the financial statements for the understanding by various stake holders. On international level IAS and IFRS, in India, Ind GAAP and Ind AS are applied. Though there are 41 standards been used, out of that Ind AS 113 is very pivotal, and it is applicable to all other standards (with some exceptions). The basic objectives of this standard is to i. to evaluate all assets/liabilities under fair value, ii. The methods to find fair value, iii. The disclosures required for fair value. Fair value approach will show the exact present current value of the business. Fair value is a exit price, fair valuation method will not affect the profitability of the firm, but it reveals the market value, hence provides more details for decision making.

KEYWORDS : fair value, types of costs, types of markets.

INTRODUCTION;

Fair value is the present exit price for assets/liabilities, as if the assets are sold or liabilities are settled now. Earlier purchase/entry/historic costs were recorded. **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. F**air value is market based and not entity based. Fair value depends upon the nature of asset like financial or non financial, market place, nature of cost adopted, and techniques of valuation.

Objectives of Ind AS 113; are i. to find fair value and not historical value, ii. Methods and techniques of finding fair value, iii. Disclosures required.

Inputs are the data required for fair value; are observable, comparable and unobservable.

Scope: Ind As 113 is applicable to all other standards except, 102; share based payment, 17; lease, 2; inventory valuation.

Features of fair value; probable exit price, in principal market or most advantageous market, value changes frequently, for unobservable assets personal judgements (may or may not be biased).

Principal market; where transaction takes place frequently, observable inputs. Example; shares and commodity market. **Most advantageous markets;** inputs are observable and comparable. Example; second hand vehicle market. **Highest and best use**: comparing the value in different markets to find maximum benefit.

COST APPROACH: There are 4 different approaches; i. market cost approach; prevailing market price, ii. Cost approach; the present purchase value, iii. Cash approach; based on discounted present value of future cash flows, EBIT, market advantages, iv. Mixed approach; when more than one of the above 3 are used for a given situation. Example; Patents and copy rights where market/cash approaches are applied at a time.

FAIR VALUE HIERARCHY; LEVELS UNDER IND AS 113;

1	Principal market, observable inputs, regulated quoted prices. No price adjustments
2	Most advantageous market; inputs are observable and comparable. Price adjustment is required.
3	Most advantageous market; inputs are unobservable, based on judgements.

Fair valuation factors; before applying fair value level consider i. appropriate valuation, ii. Collect more information, iii. Can use more than one method, iv. Same method is followed consistently, v. method shall be appropriate and reliable.

LEVELS; 1; Are observable, high volume transactions, price volatility, accurate, no adjustments required. Example; Shares and Commodity markets.

2. Are observable and comparable, price depends on demand and supply, transactions are regular but the frequency will be less, adjustments for price have to be made. Ex; Second hand vehicle transactions, compared on life, usage, condition and location of an asset.

3. Are rare in nature, the prices are unobservable and non comparable, price adjustment require expert evaluators report. Ex. second hand plant and machinery, goodwill, valuation of patent, trade mark etc.

COMPARISON BETWEEN THE REQUIREMENTS UNDER :

	IND GAAP	IND AS
1	All the valuation of assets/liabilities are recorded at historical cost.	At fair value on the date of preparation of financial statement.
2	Every year depreciation (no appreciation)	May be depreciation or appreciation due to fair value.
3	Market value is shown in disclosures.	Market value is adjusted in revaluation reserve/P&L or OCI A/c
4	Investments are classified in to long term and short term. Long terms are fixed assets and recorded at historical value. Short term value is purchase or market price which is less.	All investments are disclosed at fair value.
5	Good will amount is amortized over 5 years from the date of its creation.	Good will value is revalued every year and shown at fair value after considering the impairment in value.
6	As entry price is the base, hence there are no levels of valuations.	Assets/liabilities are valued on the basis of their nature and levels of valuation they belong to; like Level 1,2 &,3.
7	Property, Plant and Equipment are always recorded on wdv method, hence will not show the present value. There will be only disclosure about their present utilization, obsolescence etc.	Fair value of PPE are ascertained, hence if there are any impairment in value of asset, then they are immediately adjusted in P&L A/c.
8	Mergers and acquisitions are generally are based on historical cost	Are based on fair value considering market value, cost value or income approach.

9	Valuation of assets/liabilities are not scientific.	Most scientific way.
10	Scope of manipulation in the values.	Less scope for manipulations except in cases of Level 3, where the assets will have less influence on the firm value.
11	Difficult for the stakeholder to compare inter firm value, due to historical cost and various accounting policies followed by the different firms.	As the accounting standards are uniformly applied hence for the stakeholders, it is good compare and takes decisions.

Advantages of fair value; i. it is present price hence it gives accurate value of the firm, ii. Due to globalization there are many regulated markets for all levels, iii. It helps for good comparison, iv. Goo for taking timely actions, iv. Year on year difference in fair value will not affect the profitability, v. no ambiguity of depreciation method, vi. Good for valuating firms during mergers and acquisitions.

Disadvantages of fair value; i. there is no reference for purchase cost, ii. Fair value changes frequently hence difficult to find fair value in the middle of the year, iii. Level 2 and 3 are subject to adjustment and bias, iv. Difficult to find fair value for intangible assets, v. volatility and change in economic conditions will affect fair value.

Disclosures required under Ind AS 107; management has to disclose the levels to which the assets/liabilities belong to, market chosen for valuation, techniques applied, assumptions made, the reasons for change in techniques etc.

LITERATURE REVIEW;

Many articles, paper presentations, ICAI guidelines and web sites have been referred. The names of the authors and web sites have been cited in bibliography. Literatures and views of these scholar's helped me to contribute some more points to the topic. As Ind AS 113 has been introduced in India w.e.f 1.04.2016, hence, there are some teething problems to be addressed. All the regulatory authorities are amending the regulations on the basis of the national and international requirements and the problems encountered by the entity while implementing Ind AS 113.

METHODS;

The data collected for the study are secondary in nature from web sites, financial statements of different corporate, government and ICAI journals. The data are quantitative in nature hence the statistical tools like mean, percentage, standard deviation and "t" tests are applied for inference.

RESULTS;

India being a developing country, having good growth in GDP, but still the standard of living, per capita income are not matching with the world standards. Still far more improvements have to be made in infrastructure, education, food, health, sustainability sectors. For this all huge financial support is required, for which both national and international resources have to be tapped. To attract foreign investors for cheaper cost of funds, Ind AS is required which is close to IFRS. By this Indian companies can avail the benefits of national and international stock exchanges. Due to globalization, there will be more cross country transactions, more job and business opportunities. Seeing the overall advantages of Ind AS 113, the fair value method is superior to historical value for revealing a true and correct financial position. Due to more advantages of Ind AS (IFRS), more than 120 countries in the world are applying these standards while preparing the financial statements, hence it shows that the new accounting standards are more transparent, provides more disclosures, and helps to find the present firm value, good for comparisons for all the stakeholders for taking financial decisions. Globally accepted standards will help to increase business across the globe, more job opportunities, judicious use of natural resources etc. Now it is also mandatory to disclose the various types of risks the entity is encountering. As far as fair valuation of Level 1 & 2, they are more reliable because there are many regulations and matured financial and commodity markets. Many stock exchanges give exact firm value, due to the prices available for various commodities, there will not be any discrimination and biased prices. Financial instruments like bonds, derivatives, debentures etc are well protected due to well regulated put, call, futures and options, hedge activities across the globe, hence the entities are well protected. In the modern business, the risks are only of economic risk (government tax policies), market risk (demand and supply), market specific risks (technology change). Financial risks are considerably reduced due to hedge facility and well regulated financial markets.

DISCUSSIONS;

Ind AS is following IFRS, but it is not total adoption of IFRS. There are some carve in and carve outs (deviations) from the IFRS, due to the local needs. Still most of the Indian business organisations are tiny, small and medium scale, family oriented, having different accounting methods to be selected, hence total implementations of accounting standards are not possible amongst these firms. India being a federal structure in nature having an intervention of various courts, Income Tax requirements, regulatory authorities like Ministry of Corporate Authorities, SEBI, RBI, IRDA etc, In some cases the local requirements will supersede the international requirements. These authorities are trying to amend few rules as per international standards keeping in view of the local needs. Ind AS has been recently applied (wef 1.04.2016) for Indian Companies having more than Rs.500 crores net worth, and for Banks (wef 1.04.2018), hence it is too early to find an exact impact of fair value and their outcome. For small and medium companies still old Ind GAAP is applied, hence the comparison is difficult. Over the period of time all the firms and nonprofit organizations will have to apply Ind AS mandatorily, then only comparison becomes easy. Technology development, training to the accounting fraternity and stakeholders awareness about the fair value is important. Awareness of accounting standards have to be imparted at various college levels.

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