Frequently asked questions on Business valuation – will be immensely helpful for Valuation examination

Sl. No.	Questions	Answers
1.	*What do you mean by business valuation?*	According to the definition in *The International Glossary of Business Valuation Terms*, business valuation is the act or process of determining the value of a business, business ownership interest, security, or intangible asset".
2.	*What is termed as "Value" under the Valuation process?*	As per ICAI Valuation Standards 2018 adopted by ICAI RVO, the term "value" is defined as follows: A value is an estimate of the value of a business or business ownership interests, arrived at by applying the valuation procedures appropriate for a valuation engagement and using professional judgment as to the value or range of values based on those procedures.
3.	*What is meant by Fair Value?*	According to IFRSs and US GAAP fair value is defined 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".
4.	*What is meant by Fair Market Value?*	Fair market value as defined under International glossary of business valuation terms (IGBVT) is "The price expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell when both have reasonable knowledge of the relevant facts.
5.	*What is investment value?*	As defined by IGBVT, "it is the value to a particular investor based on individual investment requirements and expectations" In this case synergies are considered to be specific to purchaser and hence this value may be higher than FMV.
6.	*What is intrinsic value?*	Intrinsic value: As per IGBVT, "it is the value that an investor considers, on the basis of an evaluation or available facts to be the "true" or "real" value that will become the market value when other investors reach the same conclusion". There are four major components of intrinsic value of a going concern: (a) level of normal earning power and profitability in the employment of assets as distinguished from reported earnings (b) dividends paid or the capacity to pay such dividends currently and, in the future, (c) a realistic expectation about the trend line growth of earning power (d) stability and predictability of those quantitative and qualitative projections of the future economic value of the enterprise
7.	*Who is a registered valuer?*	A registered valuer is a person having such qualifications and experience and registered as a Valuer in such a manner, on such terms and conditions as may be prescribed under sec 247 of Companies Act 2013 and Rules made thereunder.
8.	*Who is the authority for administering the Registered Valuers?*	The Central Government has delegated its powers and functions under Section 247 of the Companies Act, 2013 to the Insolvency and Bankruptcy Board of India (IBBI) and specified the IBBI as the Authority under the Companies (Registered Valuers and Valuation) Rules, 2017.

Sl. No.	Questions	Answers
9.	*What are the qualifications and experience required to register as a Registered Valuer for securities class or financial assets?*	An individual shall have the following qualifications and experience to be eligible for registration under Companies (Registered Valuers and Valuation) Rules, 2017: ● Chartered Accountant, Cost Accountant, Company Secretary, MBA/PGDBM in Finance and an individual having post-graduate degree in finance and ● Having at least three years' experience after possessing qualification as mentioned above.
10.	*What kind of valuations a Registered Valuer can undertake as per Section 247 of the Companies Act, 2013?*	Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer and being a member of an Organization recognised, in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.
11.	*What are the duties of a Registered Valuer as per Section 247 of the Companies Act, 2013?*	The valuer appointed under Section 247 shall— ● make an impartial, true, and fair valuation of any assets which may be required to be valued. ● exercise due diligence while performing the functions as valuer, ● make the valuation in accordance with such Rules as may be prescribed; and ● not undertake valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time during a period of three years prior to his appointment as valuer or three years after the valuation of assets was conducted by him.
12.	*What is the Code of Conduct for Registered Valuers?*	As per r 7 (g) and r 12 (2) (d) of the Companies (Registered Valuers and Valuation) Rules, 2017, the Registered Valuers are required to follow the Code of Conduct available at: http://www.icairvo.in/laws-policies/code-conduct/
13.	*Enumerate the requirement of Valuation by a registered valuer under various provisions of the Companies Act 2013.*	● Section 62 (c) – Issue of shares on rights basis ● Section 192 (2) – Non-cash transactions with Directors ● Section 230 – Compromise or arrangement with creditors and members ● Section 236 – Purchase of minority shareholding ● Section 247- Registered Valuer ● Section 260- Valuation in respect of Shares and Assets to arrive at the Reserve Price for Company Administrator ● Section 281- Valuing assets for submission of the report by Company Liquidator ● Section 305- Report on Assets for declaration of solvency in case of the proposal to wind up voluntarily ● Section 319- Valuing interest of any dissenting member under Power of Company Liquidator to accept shares etc., as consideration for sale of the property of the company
14.	*What are the fundamental ethical premises that the valuer needs to observe?*	The Indian Valuation Standards 2018 issued by ICAI stipulates that while issuing the Valuation Report the valuer needs to observe certain ethical principles which are highlighted as under: (a) Integrity and Fairness. (b) Objectivity without bias, conflict of interest or undue influence of

Sl. No.	Questions	Answers
		others (c) Professional Competence and Due Care (d) Respect for Confidentiality (e) Ensure Professional Behaviour by complying with relevant laws and regulations and avoid any conduct that disrepute to the profession.
15.	*What are the Valuation approaches stated under the ICAI Valuation Standard – 103*	The ICAI Valuation Standard 103 provides guidance for following three main valuation approaches: ● Market approach. ● Income approach. ● Cost approach.
16.	*What is cost (net assets) approach to valuation?*	This approach is also called Asset based approach, which is synonymous to asset accumulation approach, net asset value approach, the adjusted book value method and the asset build up method.
17.	*What is replacement cost method of valuation?*	This method also known as 'Depreciated Replacement Cost Method' involves valuing an asset based on the cost that a market participant shall have to incur to recreate an asset with substantially the same utility (comparable utility) as that of the asset to be valued, adjusted for obsolescence.
18.	*What is reproduction cost method of valuation?*	This method involves valuing an asset based on the cost that a market participant shall have to incur to recreate a replica of the asset to be valued, adjusted for obsolescence.
19.	*What is summation method of valuation?*	International Valuation Standards 2017 has added one more method which is called the Summation method also referred to as the underlying asset method, which is typically used for investment companies or other types of assets or entities for which value is primarily a factor of the values of their holdings.
20.	*What is market-based approach in valuation?*	This approach determines enterprise value by comparing one or more aspects of the subject enterprise to the similar aspects of other entities which have established market value.
21.	*What is meant by Comparable Companies Multiple Method of valuation?*	Comparable Companies Multiple Method, also known as Guideline Public Company Method, involves valuing an asset based on market multiples derived from prices of market comparables traded on active market.
22.	*What is meant by Comparable Transaction Multiple Method of valuation?*	Comparable Transaction Multiple Method, also known as '*Guideline Transaction Method*' involves valuing an asset based on transaction multiples derived from prices paid in transactions of asset to be valued /market comparables (comparable transactions).
23.	*What is Guideline publicly traded method of valuation?*	International Valuation Standards 2017 has added one more method, which is similar to Comparable transactions method mentioned above. The guideline publicly traded method utilises information on publicly traded comparables that are the same or similar to the subject asset to arrive at an indication of value.
24.	*What is income-based approach in valuation?*	This approach is commonly called Discounted Cash flow approach. It is universally accepted as by far the most appropriate method used for business valuations. According to the income-based approach the business valuer must make estimation of the following elements highlighted below: (a) Estimation of business life expectancy (b) Estimation of future income flows that a business will generate

Sl. No.	Questions	Answers
		during its life expectancy (c) Estimation of discount rate in order to calculate the present value of the estimated income flows. Indian Valuation Standards 102, 2018 published by the ICAI corroborates the above approach.
25.	*What is the equity value?*	Equity Value is the value of the business attributable to equity shareholders. It can also be formulated as: Equity value = Market capitalization *Add:* fair value of all stock options (in the money and out of the money) *Add:* Value of convertible securities in excess of what the same securities would be valued without the conversion attribute.
26.	*What is enterprise value?*	Enterprise Value is the value attributable to the equity shareholders plus the value of debt and debt like items, minority interest, preference share less the amount of non-operating cash and cash equivalents. It can also be formulated as: Enterprise value = Common equity at equity value + Debt at market value + Minority Interest at market value if any - Short term and long-term investments - Associate company at market value if any + Preference capital at book value - Cash and cash-equivalents.
27.	*What is market-based valuation model?*	This is the simplest way to value an enterprise traded publicly in a stock exchange. The company's stock can be bought and sold in that exchange. This method indicates the value of the subject company by comparing it to publicly traded companies in similar lines of business.
28.	*What is the dividend discount model of valuation?*	From the standpoint of the shareholder who buys and holds stocks, the cash flows received at any point in time, are the dividends paid on it and the market price of the share at that point. The present value of a share is nothing but the future value of dividends receivable on that share.
29.	*What is net asset value method of valuation?*	The net asset value method estimates value as the net cash remaining if all assets are disposed of to get the best possible price for each asset and all liabilities are paid with the proceeds. Assets and liabilities are adjusted to their individual appraised values. The net result is the value arrived at for the total enterprise.
30.	*What are earnings method of valuation?*	The earnings method includes capitalization of earnings, capitalization of excess earnings and present value of future earnings. The capitalization of earnings method is among one of the most popular methods of valuation approaches
31.	*What is relative valuation method of valuation?*	This method estimates the value of an asset by looking at the pricing of comparable Assets relative to a common variable such as earnings, cash flows, book value or sales.
32.	*What is contingent claim method of valuation?*	This is a revolutionary valuation model used to value assets the cash flows of which are contingent on occurrence of a future event. The examples are, an unknown oil rig, development of pharmaceutical drug, development of new product, innovation. In each of these cases there is high risk and uncertainty involved. This method uses option pricing models to measure the value of assets that have share option characteristics also. Some of these assets are traded financial assets like warrants and some of these options are

Sl. No.	Questions	Answers
		not traded and are based on real assets e.g. projects, patents and oil reserves as mentioned above.
33.	*How are real options valued?*	Options are financial instruments that convey the right, but not the obligation, to engage in a future transaction on some underlying security at a pre negotiated price. These options are valued as managerial rights and not obligations connected with projects to ensure that grow and expand with time and also abandon projects or assets after the investments are made.
34.	*What are the various option pricing models?*	Binomial Model – It is a discrete-time model for pricing option in which it is assumed that price change in the underlying asset occurs only after a regular time interval. Black Scholes Model – This model was designed to value European options, which were dividend-protected. Thus, neither the possibility of early exercise nor the payment of dividend affects the value of options in this model.
35.	*What are "off balance sheet" items?*	Off-balance sheet (OBS) items are assets or liabilities that do not appear on a company's balance sheet. Although not recorded on the balance sheet, they are still assets and liabilities of the company. Off balance sheet items are typically those not owned by or are a direct obligation of the company. It is necessary for the valuer to value the off-balance sheet items to arrive at a fair value of the business as a whole. For example, when loans are securitized and sold off as investments, the secured debt is often kept off the bank's books. An operating lease is one of the most common off-balance items.
36.	*What is the valuation approach to preferred stock?*	A preferred stock has the characteristics of both equity as well as debt. Preferred stockholders have preferential rights over common stockholders in right to dividend, and advantages in the event of dissolution, liquidation or bankruptcy. Since preference shares generally pay a constant dividend over its lifetime the value of a preferred stock is equivalent to preference dividend.
37.	*What is meant by Discounted Cash Flow method?*	Discounted Cash Flow method has its foundation in the present value concept and the time value of money. In this method the value of any asset is the present value of expected future cash flows that the asset generates. To carry out valuation in this method, we need to (a) Estimate the life of the asset, (b) Estimate the cash flows during the life of the asset, (c) Estimate the discount rate to apply to these cash flows to get present value
38.	*What is the process followed under the Discounted Cash Flow Technique?*	The process followed under the Discounted Cash Flow technique is as under: ● Operating results and free cash flows of the business over the forecast period is estimated. ● The exit multiple and/or growth rate in perpetuity of the business at the end of the estimated period is predicted. ● Appropriate discount rate range is ascertained, and company's weighted average cost of capital is estimated. ● The projected free cash flows and terminal value of the business/firm is discounted to the present to determine a range of values.

Sl. No.	Questions	Answers
		• The resulting valuation for all the assets and liabilities that have not been accounted for in the cash flow projections are adjusted.
39.	*What is going concern versus asset-based valuation?*	Valuation of business based on going concern, is done based on financial statements of an entity. In going concern valuation, best judgement is applied not only on existing investments but also on expected future investments and their profitability as well. On the other hand, on asset-based valuation the focus is primarily on the assets in place and value of each asset is estimated separately. For entities with lucrative growth opportunities, asset-based valuation will yield lower values whereas based on going concern the values will be higher.
40.	*What is equity-based valuation versus firm valuation?*	The cash flows which remain after debt payments and reinvestment needs are called free cash flows and this relates to equity holders. The discount rate that reflects just the cost of equity financing is called the cost of equity. Hence, valuation of equity stake in the business is referred to as equity valuation. Whereas the firm valuation comprises discounting of future cash flows approach generated from both the assets-in-place and growth assets. The discount rate is the weighted average cost of equity and debt which is called the weighted average cost of capital (WACC).
41.	*What is Net Present Value?*	The concept of Net Present Value centres around the time value of money. In simple words it states that the value of Rupee today is worth more than value of Rupee say a year from now. The basic reason is that a Rupee today can be invested in risk-free interest like Government securities and can earn a return. A rupee a year down the road is worth less today as it has not earned interest it would have earned had it been invested today. Thus Net Present Value (NPV) is calculated by applying appropriate discount rate using either the APV method or the WACC method on future cash flows to determine the present values of future cash flows and the sum-total of all those values is termed as Net Present Value (NPV) of the business/enterprise.
42.	*What is Free Cash Flows to Firm (FCFF):*	Free Cash Flows to Firm refers to cash flows that are available to all the providers of capital, i.e. equity shareholders, preference shareholders and lenders. Therefore, cash flows required to service lenders and preference shareholders such as interest, dividend, repayment of principal amount and even additional fund raising are not considered in the calculation of FCFF.
43.	*What is Free Cash Flows to Equity (FCFE):*	Free Cash Flow to Equity refers to cash flows available to equity shareholders and therefore, cash flows after interest, dividend to preference shareholders, principal repayment and additional funds raised from lenders/preference shareholders are considered.
44.	*What is meant by Capital Asset Pricing Model (CAPM)?*	This is a model used to calculate expected return on investment also referred to as the expected return on equity. This is a linear model with one independent variable called Beta. Beta represents relative volatility of the investment in question vis-à-vis the market. This means if Beta is 1, it means the degree of volatility of the investment is identical to that of the market returns. If Beta is less than 1 then the return on the investment (say a utility company), is less volatile than the market. Conversely, if Beta is greater than 1, then the return on the target investment (say a dot.com company) is more volatile than that of the market.

Sl. No.	Questions	Answers
45.	*What are the commonly used discount rates?*	The following discount rates are commonly used depending upon the nature of the asset: (a) cost of equity (b) weighted average cost of capital (c) Internal Rate of Return ('IRR'); (d) cost of debt; or (e) yield.
46.	*What is meant by Weighted Average Cost of Capital (WACC)?*	Weighted Average Cost of Capital is the weighted average cost of equity and debt calculated as under: Market value of debt Market value of equity Discount rate for rate (average long-term debt) Discount rate for leveraged equity (calculated using CAPM) WACC approach assumes leveraged beta, which signifies leveraged (historical) discount rate.
47.	*What is meant by Adjusted Present Value (APV) Method?*	This signifies that in case of APV approach we assume the unlevered beta approach, which assumes unleveraged equity discount rate, meaning that debt is zero.
48.	*What are the major steps involved in deriving a value using DCF method?*	The International Valuation Standards 2020 provides the following guideline related to key steps under Discounted Cash Flow method: (a) choose the most appropriate type of cash flow for the nature of the subject asset and the assignment (i.e. pre-tax or post-tax, total cash flows or cash flows to equity, real or nominal, etc), (b) determine the most appropriate explicit period, if any, over which the cash flow will be forecast, (c) prepare cash flow forecasts for that period, (d) determine whether a terminal value is appropriate for the subject asset at the end of the explicit forecast period (if any) and then determine the appropriate terminal value for the nature of the asset, (e) determine the appropriate discount rate, and (f) apply the discount rate to the forecasted future cash flow, including the terminal value, if any.
49.	*What is Terminal Value?*	Terminal value represents the present value at the end of explicit forecast period of all subsequent cash flows to the end of the life of the asset or into perpetuity if the asset has an indefinite life.
50.	*What are different methods for estimating the terminal value?*	There are different methods for estimating the terminal value. The commonly used methods are: ● Gordon (Constant) Growth Model, ● Variable Growth Model, ● Exit Multiple; and ● Salvage/Liquidation value
51.	*What is Gordon (Constant) growth model of calculating Terminal Value?*	The terminal value under this method is computed by dividing the perpetuity maintainable cash flows with the discount rate as reduced by the stable growth rate. Here it is assumed that the assets grow or decline at constant rate beyond the forecast period.
52.	*What is Variable Growth Method of calculating Terminal Value?*	This method assumes that the asset grows (or declines) at variable rate beyond the forecast period.
53.	*What is Exit Multiple Method of calculating Terminal Value?*	This method involves application of a market-evidence based capitalisation factor or a market multiple (for example, Enterprise Value (EV)/Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA), EV/Sales) to the perpetuity

Sl. No.	Questions	Answers
		earnings/income.
54.	*What is Salvage/Liquidation value Method of calculating Terminal Value?*	This method is used in cases, such as mine or oil fields, the terminal value has limited or no relationship with the cash flows projected for the forecast period. For these assets, the terminal value is calculated as the salvage or realisable value less costs to be incurred for disposing of such asset.
55.	*What are the valuation approaches related to Tangible Assets?*	Valuation approaches and methodologies prescribed under Indian Valuation Standard 103 Valuation Approaches and Methods are applicable under Tangible assets are: Cost approach Income approach Market approach Liquidation approach Rule of Thumb or benchmark approach
56.	*What are the valuation approaches under cost approach related to Tangible Assets?*	Valuation approaches under cost approach are: Replacement Cost Method; and Reproduction Cost Method.
57.	*What are the valuation approaches under income approach related to Tangible Assets?*	Valuation approach under Income approach would cover Discounted cash flow model.
58.	*What are the valuation approaches under market approach related to Tangible Assets?*	Valuation approach under market approach would cover: Comparable Companies Multiple Method; and Comparable Transaction Multiple Method.
59.	*What is the valuation approach used under liquidation related to Tangible Assets?*	Liquidation value is the amount that will be realized on sale of an asset or a group of assets when an actual/hypothetical termination of the business is contemplated/assumed.
60.	*What is the valuation approach used under Rule of Thumb or benchmark indicator related to Tangible Assets?*	Rule of thumb or benchmark indicator is used as a reasonable check against the values determined using other valuation approaches in a valuation engagement.
7.	*How do we carry out valuation of tangible assets?*	Initial measurement: Purchase price. Costs directly attributable to bringing the asset to its location and in the condition to make it available for its intended use. Initial estimate of the costs of dismantling and removing the item and restoration of site on which it is located. Subsequent measurement. At cost model less depreciation and impairment, or Revaluation model.
61.	*How do we carry out valuation of tangible assets under revaluation model?*	Ind AS 16 provides guidance on how to determine the fair value: (a) If there is market-based evidence: Land & Buildings – derived from market-based values as appraised by professionally qualified valuers Plant & Equipment - based on market value determined by experts (b) If there is no market-based evidence: – estimate fair value using an income or a depreciated replacement cost method

Sl. No.	Questions	Answers
		– Frequency of valuation should be annual in those class of assets where the fair value is materially different from carrying value based on volatile conditions – otherwise every three to five years would be sufficient
62.	*How do we carry out valuation of inventories?*	In accordance with Ind AS 2 Inventories are valued at lower of cost and net realisable value. According to para 10, the cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
63	*How do we carry out valuation of investment properties?*	**Initial measurement:** Investment property is initially recognised at cost comprising the purchase price and directly attributable transaction costs (e.g. legal services, transfer services) **Subsequent measurement:** At cost less accumulated depreciation and accumulated impairment losses. When measuring the fair value of investment property in accordance with Ind AS 113, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions. (Para 40)
64	*How are assets valued which are discontinued and held for sale?*	Pursuant to Ind AS 105, Assets discontinued and held for sale, valuation of assets held for sale is at lower of: Carrying amount (CA) Fair value less costs of disposal (FVLCD)
65.	*How are agricultural assets valued?*	According to Ind AS 41: Para 12. A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably. Para 13 Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 Inventories or another applicable Standard. Para 30. There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses.
66.	*What are the methods of valuation of intangible assets?*	The methods of valuation of intangible assets are: **Cost approach:** A valuation approach that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). **Market value approach:** Intangible assets are valued with reference to transactions involving similar assets recently in similar markets. The approach is possible when there is an active market in which arm's length transactions have occurred recently involving comparable intangible assets and adequate information in terms of transactions is available. **Economic value approach:** This approach is based on cash flows or earnings attributable to those assets and capitalization thereof at an

Sl. No.	Questions	Answers
		appropriate discount rate or multiple. Some of the key parameters used in this approach are: projected revenue, projected earnings, rate of return, discount rate etc.
67.	*What are the valuation methods under cost approach?*	The methods used are as under: **(a) Replacement Cost Method** This Method involves valuing an asset based on the cost that a market participant shall have to incur to recreate an asset with substantially the same utility (comparable utility) as that of the asset to be valued, adjusted for obsolescence. **(b) Reproduction Cost Method** This method involves valuing an asset based on the cost that a market participant shall have to incur to recreate a replica of the asset to be valued, adjusted for obsolescence.
68.	*What are the valuation methods under market value approach?*	The methods used are: **Price/Valuation multiples/Capitalisation rates** This method considers certain multiples/ capitalisation rates to arrive at the valuation of a comparable intangible asset. The multiples shall be adjusted appropriately to factor in any differences between the intangible asset to be valued and comparable intangible asset. **Guideline pricing method** This method determines the value of an intangible asset by considering the price paid in an orderly transaction for a comparable intangible asset (called as the guideline intangible asset which is similar to the intangible asset to be valued).
69.	*What are the valuation methods under economic value approach?*	The methods used are as under: (a) Relief-from-royalty-method, (b) Multi-period Excess Earnings Method (MEEM), (c) With-and-Without method or premium profit method, (d) Greenfield method; and (e) Distributor method
70.	*What is Relief-from-royalty valuation method?*	This is a method in which the value of the asset is estimated based on the present value of royalty payments saved by owning the asset instead of taking it on lease. It is generally adopted for valuing intangible assets that are subject to licensing, such as trademarks, patents, brands, etc.
71.	*What is Multi-period Excess Earnings Method (MEEM)?*	This method is generally used for valuing intangible asset that is leading or the most significant intangible asset out of group of intangible assets being valued. The value under this method is equal to the present value of the incremental after-tax cash flows (‘excess earnings’) attributable to the intangible asset to be valued over its remaining useful life.
72.	*What is with-and-without method or premium profit method?*	Under this method, the value of the intangible asset to be valued is equal to the present value of the difference between the projected cash flows over the remaining useful life of the asset:
73.	*What is Greenfield method of valuation?*	This method is usually used to value franchise agreements and certain licenses.
74.	*What is Distributor method of valuation?*	This is a variant of MEEM and is used to value customer based intangible assets.
75.	*What are the areas where Valuation needs to be done for intangible assets and intellectual property?*	Acquisitions particularly where a significant portion of the value of the acquisition is intangible assets. Bankruptcy where claims may be made as to the significant value of intangibles.

Sl. No.	Questions	Answers
		Licensing Arrangements where the relationship between existing intangibles and future income is determined. Infringement Lawsuits where value must be attributed because of infringement of intellectual property. Joint Ventures where contributions to the venture may be a mix of tangible and intangible assets. Financing where intellectual property can be used as loan collateral or as the basis for a financing structure. Income Tax where the foreign subsidiaries of parent companies gain income using intellectual property of the parent. Tax Assessments covering a range of taxation considerations including capital gains tax, stamp duty etc.
76.	*How do we value internally generated intangible assets?*	Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognized as intangible assets (para 50) (a) Intangible assets arising from research (or research phase of an internal project) should not be recognized (para 41) and (b) Intangible assets arising from development (or from development phase of an internal project) should be recognized, if and only if, all the conditions satisfied therein are met (para 44) – If not recognized – treated as expense – if recognized - the intangible item would be capitalized (c) Subsequent expenditure on an intangible asset to be added only if – it is probable that the expenditure would generate future economic benefits in excess of its originally assessed standard of performance and the expenditure can be measured and attributed to the asset reliably.
77.	*What are the models used in valuing intellectual capital?*	Models used in valuation of intellectual capital are, (a) Market-to-book ratios: The value of intellectual capital is commonly expressed as the difference between the market value of the company and its book (equity) value. The difference between market value (MV) and book value (BV) is largely attributable to the intangibles of the business providing the foundation for future growth. The largest delta occurs in high-tech and knowledge-intensive industries, where investment is heavily weighted in intangible assets such as R&D and brands. (b) Tobin's Q: Tobin's Q compares the market value of a company with the replacement cost of its assets. It uses the ratio (the "Q") to predict the investment decisions of the firm, independent of macroeconomic conditions such as interest rates. The replacement cost of fixed assets can be calculated as the reported value of a company's fixed assets plus the accumulated depreciation and adjusted for inflation. (c) Calculated Intangible value (CIV): This method allows us to calculate the fair value of the intangible asset. CIV computes the value of intangible assets by comparing the firm's performance with an average competitor that has similar tangible assets. An advantage of the CIV approach is that it allows firm-to-firm comparisons using audited financial data and, as such, CIV can be used as a tool for benchmarking.

Sl. No.	Questions	Answers
78.	*How are intangible assets valued under Ind AS 38?*	Initial valuation Intangible assets are to be valued through initial measurement if the following conditions are satisfied- (i) The asset is identifiable, if it is, (a) is separable or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. (ii) There must be adequate control over the concerned item. This would be represented by – power to obtain future economic benefits and – power to restrict access of others to those benefits (iii) Existence of future economic benefits. This could be substantiated by – revenue from sale of products/services – cost savings or – other benefits resulting from use of an asset **Subsequent valuation** Subsequent expenditure on an intangible asset after its purchase or its completion should be recognised as an expense when it is incurred unless: (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) the expenditure can be measured and attributed to the asset reliably.
79.	*What are the discount rates used under the Valuation of the Intangible assets?*	The following discount rates are most commonly used: ● weighted average cost of capital (WACC) of the company or market participants, ● cost of equity for the company using the intangible assets or the participants, ● cost of debt having maturity similar to the economic life of the intangible asset to be valued, ● risk-free interest rates which have a maturity similar to the economic life of the intangible asset to be valued; or ● internal rate of return of the transaction for the intangible asset.
80.	*How is goodwill valued:*	Under Ind AS 103, Business Combinations, Internally generated goodwill is not recognized of valued. Purchased goodwill is recognized and valued. Calculation of purchased goodwill is the difference between the amount paid by the acquirer plus value of Non-controlling interest and net assets (assets less liabilities).
81.	*What are the steps followed to value goodwill?*	The steps followed are as under: • Calculate future maintainable profit • Calculate average profit • Calculate average capital employed • Calculate normal profit (normal rate of return) • Calculate valuation of goodwill.
82.	*What are the methods used*	Calculate valuation of goodwill under:

Sl. No.	Questions	Answers
	to value goodwill?	• Capitalisation method • Super profit method - ((future maintainable profit - normal profit) x number of years purchase of super profit • Annuity method
83.	*What are the steps followed to value goodwill under Capitalization method?*	The steps are as under: • Calculate average future maintainable profits • Calculate normal capital employed, which is capitalised value of average profits: **Normal capital employed** = [(Average Future maintainable profit)/Normal rate of return] × 100 • Calculate the value of actual closing capital employed as on date of valuation of goodwill: **Net assets** = All assets (other than goodwill, fictitious assets and non - Trade Investments) at their current values Less Outsiders liabilities • Calculate of value of goodwill Goodwill = Normal capital employed - Actual closing capital employed
84.	*What are the steps followed to value goodwill under Super profits method?*	The steps to be followed are as under: • Calculate average capital employed, where capital employed = all assets (minus goodwill, fictitious assets and non-trade investments) less outsiders' liabilities • Calculate normal profit, where normal profit = average capital employed × normal rate of return • Calculate average future maintainable profit (as discussed in step 1A above) • Calculate Super profit Super profit = Average Future maintainable profit – (average capital employed × normal rate of return) • Calculate goodwill = Super profit x No. of years for which super profit can be maintained
85.	*What are the steps followed to value goodwill under Annuity method?*	Steps to be followed in valuation of goodwill under Annuity method are as under: • Calculate future super profit • Select appropriate rate of interest/discount • Calculate present value factors as under: P.V. for 1st year = $1/(1+r)^1$ P.V. for 2nd year = $1/(1+r)^2$

Sl. No.	Questions	Answers
		• Calculate present value of super profits of each year by multiplying the amount of future super profit with the present value factor • Calculate value of goodwill by aggregation of all present value of super profits derived as per step 4.
86.	*What are the bases of valuing equity shares?*	The bases of valuation of equity shares are: ● Net asset basis (net book value) -mainly for liquidating companies ● Yield basis – earnings yield (where large block of shares is under transfer) ● Yield basis – dividend yield (where small block of shares is under transfer) ● Fair value basis ● Price-earnings multiple
87.	*How do we value Preference shares?*	Value of preference shares is calculated taking care of the following steps: ● Calculation of Risk-free rate plus small risk premium (i.e. market expectation rate) ● Ability of the Co to pay dividend on a regular basis ● Ability of the Co to redeem preference share capital ● Ability to pay preference dividend may be judged by using the ratio as under: $\frac{\text{Profit after tax}}{\text{Preference Dividend}}$ The value of each preference share can be derived as below: $\frac{\text{Preference dividend tax}}{\text{Market expectation rate}} \times 100$
88.	*What are the commonly used indices to analyse capital market information?*	Some of the commonly used indices to analyse capital market information are summarized below. ● Price-earnings ratio ● Yield ratio ● Market value/Book value per share
89.	*What are the salient features of valuation of brand?*	Salient features of valuation of brand are as follows: ● No valuation shall be made for internally generated brand ● When the brand is acquired separately, the valuation would be made at initial cost of acquisition (with subsequent addition to cost, if any) ● All identifiable intangible assets including patents, copyrights, know-how and designs which are acquired separately, valuation would be made at initial cost of acquisition (with subsequent addition to cost, if any). ● The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. ● Amortization should commence when the asset is available for use.

Sl. No.	Questions	Answers
90.	*How do we value acquired brand?*	When a brand is acquired, then the excess of purchase consideration over the net assets taken over is considered as representing goodwill. This includes various factors like brands, locational advantage, raw material availability at competitive prices, however, it is difficult to segregate value of brand from other factors.
91.	*What are the models used to value self-generated brands?*	Models used to value self-generated brand are: • Historical cost model • Replacement cost model • Market price model • Current cost model • Present value model • Potential earning model • Sensitivity model • Life cycle model • Incremental mode • Market oriented approach model • Value chain approach Model • Whole organization as a brand model • Human resources as a brand
92.	*What are the different bases on valuation of liability?*	Historical cost • Current cost • Realizable (settlement) value: Liabilities are carried at their settlement values i.e. the undiscounted amounts of cash or cash equivalents expected to be required to settle the liabilities in the normal course of business. • Present value (a) The liability items of the balance sheet are generally carried at the settlement values (b) In case of finance lease liabilities may be carried at the present value (c) The lessee should recognize a liability equal to be fair value of the leased asset at the inception of the lease – in case of finance lease
93.	*What is the fair value of liabilities?*	The fair value of liabilities is the value at which (a) Liability could be settled (b) Between able and willing parties (c) Based on an arm's length transaction
94.	*How do we value provisions?*	According to para 14 of Ind AS 37, a provision is recognized when (a) an entity has a present obligation (legal or constructive) as a result of a past event (b) it is probable that an outflow of economic benefits will be required to settle the obligation, and

Sl. No.	Questions	Answers
		(c) a reliable estimate can be made of the obligation.
95.	*How is present value used to value provisions?*	Present value is used in valuation of provisions: (a) Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. (b) The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.
96.	*How are onerous contracts valued?*	Onerous contracts are valued whereby, value of contract includes unavoidable costs of meeting obligations which exceed economic benefits expected to be received. Liabilities derived from onerous contract and valued as above must be provided for as they fulfil all the three recognition criteria related to provisions.
97.	*Are future operating losses valued?*	Provisions related to future operating losses are not recognized, hence not valued. Future operating losses do not meet the definition of a liability and the general recognition criteria set out for provisions However, an expectation of future operating losses is an indication that certain assets of the operation may be impaired. Hence, the relevant assets need to be tested for impairment under Ind AS 36, *Impairment of Assets*.
98.	*How are restructuring costs valued?*	According to Para 71 of the Ind AS 37, a provision for restructuring costs is recognised and valued only when the general recognition criteria for provisions set out in the Ind AS are met. While valuing a restructuring provision only the direct expenditures arising from the restructuring, which are those that are both: (a) necessarily entailed by the restructuring; and (b) not associated with the ongoing activities of the entity. Valuation of restructuring provision does not include such costs as: (a) retraining or relocating continuing staff; (b) marketing; or (c) investment in new systems and distribution networks.

Sl. No.	Questions	Answers
99.	*How do we value lease transactions from the lessee's side?*	**According to Ind AS 116, valuation of lease transactions from the lessee's side is as follows:** **Right-of-use-asset** ● Initial measurement ● At cost ● Subsequent measurement ● Cost model – carrying cost less depreciation and impairment cost **Lease liability** ● Initial measurement ● At present value of future lease payments ● Subsequent measurement ● Carrying amount – Add interest – Less payment – Remeasure to reflect reassessment of lease
100.	*How do we value lease transactions from the lessor's side?*	**Finance lease** *Initial measurement* Recognize the assets as a receivable at an amount equal to the *net investment in the lease*. *Subsequent measurement* Recognize finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. **Operating lease** Recognize lease payments from operating leases as income on either a straight-line basis or another systematic basis.
101.	*What are the methods of valuation of financial assets and liabilities?*	The methods used for the valuation of financial assets and liabilities are based on ● Market approach, ● Income approach and ● Cost approach as described in Indian Valuation Standard 103.

Sl. No.	Questions	Answers
102.	*What is meant by market approach valuation related to financial assets and liabilities?*	In market approach, the value of the financial asset and liability is determined by considering traded prices of such instrument in an active market; or prices and other relevant information generated by market transactions involving identical or comparable (similar) assets.
103.	*What is meant by income approach valuation related to financial assets and liabilities?*	In income approach, value of a financial asset and liability is determined based on the expected economic benefits by way of - ● income, ● cash flows or ● cost savings generated by such financial asset or liability and level of risk associated with it. It generally involves discounting future amounts to a single present value after adjusting inherent risks.
104.	*What is meant by cost approach valuation related to financial assets and liabilities?*	Under the cost approach of valuation, the price that would be received from the perspective of a market participant seller, for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility.
105.	*How do we carry out initial valuation and measurement of financial assets and liabilities?*	Initial valuation and measurement of financial assets and liabilities would be as under: (a) An entity shall measure a financial asset or financial liability at its fair value, (b) in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. (c) When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost, the asset is recognised initially at its fair value on the trade date. (d) An entity shall measure trade receivables at their transaction price (as defined in Ind AS 115) if the trade receivables do not contain a significant financing component in accordance with Ind AS 115 (or when the entity applies the practical expedient in accordance with paragraph 63 of Ind AS 115).
106.	*How do we carry out subsequent valuation and measurement of financial assets?*	Subsequent valuation and measurement of financial assets is enumerated below: (a) An entity shall measure a financial asset at: (a) Amortised cost, (b) fair value through other comprehensive income; or (c) fair value through profit or loss.

Sl. No.	Questions	Answers
		(b) An entity shall apply the impairment requirements to financial assets that are measured at amortised cost and to financial assets that are measured at fair value through other comprehensive income (c) An entity shall apply the hedge accounting requirements to a financial asset that is designated as a hedged item.
107.	*How do we carry out subsequent valuation and measurement of financial liabilities?*	Subsequent valuation and measurement of financial liabilities is enumerated below: (a) An entity shall measure a financial liability at: (a) Amortised cost, (b) fair value through other comprehensive income; or (c) fair value through profit or loss. (b) An entity shall apply the hedge accounting requirements to a financial liability that is designated as a hedged item.
108.	*How are bonds valued?*	The value of any financial instrument like bonds is equal to the present value of the expected cash flows from the financial instrument. Therefore, determining the value requires, (a) An estimate of the expected cash flows. This is worked out based on – The present value of the semi-annual coupon payments and – The present value of the par or maturity value at the maturity date (b) An estimate of the appropriate required yield.
109.	*How are zero coupon bonds valued?*	There are certain bonds which do not make periodic coupon payments. Instead the investor realises interest as the difference between the purchase price and the maturity value. These kinds of bonds are called zero coupon bonds. The price of zero-coupon bonds is calculated as under: $P = \frac{M}{(1+r)n}$ Where, P = Price of the bond M = Maturity value r = Rate n = Period
110.	*How are expected credit losses valued?*	An entity shall measure and value expected credit losses of a financial instrument in a way that reflects:

Sl. No.	Questions	Answers
		(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.
111.	*How are derivatives measured and valued?*	All derivatives including those linked to unquoted equity investments, are measured at fair value. Value changes are recognized in profit or loss unless the entity has elected to treat the derivative as a hedging instrument in accordance with Ind AS 109, in which case the requirements of Ind AS 109 apply.
112.	*How are embedded derivatives measured and valued?*	An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to stand-alone derivative. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument or has a different counter party is not an embedded derivative but separate financial instrument
113.	*How are investments held to maturity valued under Reserve Bank of India Master Circular dated July 1, 2015 on prudential norms on classification and valuation of investments by Financial Institutions?*	**Investments held to maturity** Investments classified under Held to Maturity category need not be marked to market and will be carried at acquisition cost unless it is more than the face value, in which case the premium should be amortized over the period remaining to maturity. FIs should recognize any diminution, other than temporary, in the value of their investments in subsidiaries/joint ventures, which are included under Held to Maturity category and provide therefor. Such diminution should be determined and provided for each investment individually.

Sl. No.	Questions	Answers
114.	*How are investments available for sale valued under Reserve Bank of India Master Circular dated July 1, 2015 on prudential norms on classification and valuation of investments by Financial Institutions?*	**Investment available for sale** The individual scrips in the available for Sale category will be marked to market at the year-end or at more frequent intervals. The net depreciation under each classification mentioned below should be recognised and fully provided for, the net appreciation under these classifications should be ignored. The book value of the individual securities would not undergo any change after the revaluation. The classification of investment will be (i) Government securities (ii) Other approved securities (iii) Shares (iv) Debentures & Bonds (v) Subsidiaries/joint ventures (vi) Others (CP, Mutual Fund Units, etc.).
115.	*How are investments held for trading valued under Reserve Bank of India Master Circular dated July 1, 2015 on prudential norms on classification and valuation of investments by Financial Institutions?*	**Investments held for trading** The individual scrips in the Held for Trading category will be revalued at monthly or at more frequent intervals and the net appreciation/depreciation under each of the six classifications referred to above will be recognised in the income account. The book value of the individual scrip will change with the revaluation.
116.	*How are Central Government securities valued under Reserve Bank of India Master Circular dated July 1, 2015 on prudential norms on classification and valuation of investments by Financial Institutions?*	**Central Government Securities** (i) The FIs should value the unquoted Central Government Securities on the basis of the prices/YTM rates put out by the PDAI/FIMMDA at periodical intervals. (ii) Treasury Bills should be valued at carrying cost. **(iii) For the limited purpose of valuation, all special securities issued by the Government of India, directly to the beneficiary entities, which do not carry SLR status, may be valued at a spread of 25 bps above the corresponding yield on Government of India securities. At present, such special securities comprise: Oil Bonds, Fertilizer Bonds, bonds issued to Unit Trust of India, IFCI Ltd., Food Corporation of India, Industrial Investment Bank of India Ltd., the erstwhile Industrial Development Bank of India and the erstwhile Shipping Development Finance Corporation.**

Sl. No.	Questions	Answers
117.	*How are State Government securities valued under Reserve Bank of India Master Circular dated July 1, 2015 on prudential norms on classification and valuation of investments by Financial Institutions?*	**State Government Securities** Unquoted State Government securities will be valued applying the YTM method by marking it up by 25 basis points above the yields of the Central Government Securities of equivalent maturity put out by PDAI/FIMMDA periodically.
118.	*How are Debentures/Bonds valued under Reserve Bank of India Master Circular dated July 1, 2015 on prudential norms on classification and valuation of investments by Financial Institutions?*	**Debentures/Bonds** All debentures/bonds other than debentures/bonds which are in the nature of advance should be valued on the YTM basis. Such debentures may be of different companies having different ratings. These will be valued with appropriate mark-up over the YTM rates for Central Government securities as put out by PDAI/FIMMDA periodically.
119.	*How are Equity shares valued under Reserve Bank of India Master Circular dated July 1, 2015 on prudential norms on classification and valuation of investments by Financial Institutions?*	**Equity Shares not in the Nature of Advance** In respect of other investments in equity shares valuation should be done as per the market value which would be the market price of the scrip as available from the trades/quotes on the stock exchange. Those scrips for which current quotations are not available or where the shares are not quoted on Stock Exchange, should be valued at break-up value (without considering revaluation reserves, if any) which is to be ascertained from the company's latest balance sheet. In case the latest balance sheet is not available the shares are to be valued at rupee one per company. **Equity Shares in the Nature of Advance** The equity holdings in the nature of advance should be compulsorily placed in the 'Available For Sale' category. The equity shares should be considered to be in the nature of advances if the equity shares were issued as part of a proposal for project finance. Such equity should be valued by notionally extending to it the asset-classification of the outstanding loans of the issuing company and provision for depreciation in the value of equity made accordingly. In case the said loans are in the standard category, provision as applicable to the standard loan assets would be required for the depreciation in the equity value but in case the loans are in the

Sl. No.	Questions	Answers
		doubtful category, the equity held should be treated as an unsecured facility and fully provided for. The equity shares in the nature of advance, in cases where no loan against the company issuing the shares was outstanding, should be valued at market price, if listed and quoted, provided the latest market quotation was not more than 30 day-old as on the date of valuation.
120.	*How are Preference shares valued under Reserve Bank of India Master Circular dated July 1, 2015 on prudential norms on classification and valuation of investments by Financial Institutions?*	**Tax-free Preference Shares** When the dividend on the preference shares is tax-free under the Income Tax Act, the guidelines framed by FIMMDA for valuation of tax-free bonds should be followed for valuation of unquoted tax-free preference shares, other than those kept in the HTM category. **Preference Shares with Taxable Dividend** The following valuation methodology for the unquoted preference shares should be adopted: (a) Determine the YTM of the preference shares as per its cash flow profile; (b) Determine the YTM for GOI security of equal residual maturity and add the applicable credit spread/risk premium, as per the rating of the preference share by the rating agencies subject to the following: (i) The rate used for the YTM for unrated preference shares should not be less than the rate applicable to rated preference shares of equivalent maturity. The mark-up for the unrated preference shares should appropriately reflect the credit risk borne by the FI. (ii) Where investment in preference shares is as part of rehabilitation, the YTM rate should not be lower than 1.5% above the coupon rate/YTM for GOI loan of equal maturity. (c) Value the preference share as per the following formula: (YTM of the preference share) × 100 Rate arrived at step (b) above subject to following conditions: (i) Where preference dividends are in arrears, no credit should be taken for accrued dividends (the period of pendency should be reckoned as per the extant prudential norms) and the value determined on YTM should be discounted by at least 15% if arrears are for

Sl. No.	Questions	Answers
		one year, and more if arrears are for more than one year. The depreciation/provision requirement arrived at in the above manner in respect of non-performing shares where dividends are in arrears shall not be allowed to be set-off against appreciation against other preference shares. (ii) When a preference share has been traded on stock exchange within 15 days prior to the valuation date, the value should not be higher than the price at which the share was traded. **Preference Shares in the Nature of Advance** This instrument should be valued by notionally extending to them the asset-classification of the outstanding loans of the issuing company and provision for depreciation in the value of preference shares made accordingly. In case the said loans are in the standard category, provision as per norms applicable to the standard loan assets would be required for the depreciation in the value of these shares. In case the loans are in the doubtful category, the preference shares held should be treated as an unsecured facility and fully provided for. The preference shares acquired by conversion of loans/debentures in the nature of advance could be viewed as loan equivalent. Such shares would also carry an obligation of dividend payment. Hence, in cases where there was no loan outstanding against a borrower company which had issued the shares, the record of dividend receipt on the preference shares should be looked into to determine the asset classification of the preference shares, as per record of recovery. For the purpose of asset classification, the due date of dividend payment on preference shares should be reckoned as the date of the closing of annual accounts of the company concerned. Accordingly, if the dividend on preference shares is not received within 90 days from the date of closing of annual accounts of the issuing company, the shares should be treated as NPI and provided for accordingly. **Non-Project Related and Redeemable Preference Shares** Such preference shares being eligible to be kept in the HTM category, within the 25% ceiling, could be valued at acquisition cost/amortized cost subject to provisioning for permanent diminution, if any, in value - for which payment of dividend would also be a relevant factor.

Sl. No.	Questions	Answers
121.	*How are Mutual Fund Units valued under Reserve Bank of India Master Circular dated July 1, 2015 on prudential norms on classification and valuation of investments by Financial Institutions?*	**Mutual Funds Units** Investment in quoted Mutual Fund Units should be valued as per Stock Exchange quotations. Investment in non-quoted Mutual Fund Units is to be valued on the basis of the latest re-purchase price declared by the Mutual Fund in respect of each particular Scheme. In case of funds with a lock-in period, where repurchase price/market quote is not available, Units could be valued at NAV. If NAV is not available, then these could be valued at cost, till the end of the lock-in period.
122.	*How are Equity-settled share-based payment transaction valued?*	In accordance with Ind AS 102, Equity-settled share-based payment transactions are valued as under: For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. (Para 10)
123.	*How are Cash-settled share-based payment transaction valued?*	According to Para 30 of Ind AS 102, for cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall re-measure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.
124.	*Define Fair value?*	Ind AS-113 on Fair Value Measurement 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.”
125.	*What is meant by orderly transaction?*	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).

Sl. No.	Questions	Answers
126.	*What is meant by exit price? How is it different from entry price?*	Exit price is the price that would be received to sell an asset or paid to transfer a liability. Entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction.
127.	*What is meant by principal market?*	Principal market is the market with the greatest volume and level of activity for the asset or liability.
128.	*Who are identified as market participants?*	Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: (a) They are independent of each other, i.e. they are not related parties as defined in Ind AS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms. (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. (c) They are able to enter into a transaction for the asset or liability. (d) They are willing to enter into a transaction for the asset or liability, i.e. they are motivated but not forced or otherwise compelled to do so.
129.	*What is the Fair Value hierarchy for inputs in relation to valuation?*	Ind AS-113 establishes a Fair Value hierarchy that categorizes valuation related inputs into three levels, namely: **Level 1 input** - These inputs are quoted prices (unadjusted) in active markets for identical assets/liabilities that the entity can access at the measurement date. **Level 2 inputs** - These inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. **Level 3 inputs** - These inputs are unobservable inputs for assets/liabilities. Unobservable inputs are used to measure Fair Value to the extent that relevant observable inputs are not available.

Sl. No.	Questions	Answers
130.	*What are observable inputs? How different these are from unobservable inputs?*	Observable inputs are those inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are those Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.
131.	*What is the market approach in valuation?*	The market approach is a valuation is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.
132.	*What is the income approach in valuation?*	These are valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined based on the value indicated by current market expectations about those future amounts. The Income Approach includes several methods, such as Discounted Cash Flow (DCF) Method, Relief from Royalty (RFR) Method, Multi-Period Excess Earnings Method (MEEM), With and Without Method (WWM) and Option pricing models such as Black- Scholes -Merton formula or binomial (lattice) model.
133.	*What is the cost approach in valuation?*	This is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
134.	*What is meant by the term "Participants Specific Value"?*	Participant specific value" is the estimated value of an asset or liability considering specific advantages or disadvantages of either of the owner or identified acquirer or identified participants. Participant specific value may be measured for an existing owner or for an identified acquirer or for a transaction between two identified parties and consider factors which are specific to such party(ies) and which may not be applicable to market participants in general. For example, a participant specific value for a potential acquirer in connection with acquisition of a manufacturing facility will consider aspects which have location and business specific advantages or synergies which may not be available to market participants in general.

Sl. No.	Questions	Answers
133.	*What is meant by transaction cost?*	The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria: (a) They result directly from and are essential to that transaction. (b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made (similar to costs to sell, as defined in Ind AS 105).
134.	*What is Economic Value Added?*	Economic Value Added (EVA) is defined as the surplus available after applying an appropriate charge for the capital employed in the business. As a residual income measure of financial performance is simply the operating profit after tax less a charge for the capital equity as well as debt, used in the business.
135.	*What are the steps involved to calculate EVA?*	The steps in calculation of EVA are as under: (a) Calculate Net Operating Profit after Tax (NOPAT) (b) Calculate Total Invested Capital (TC) (c) Determine Weighted Average Cost of Capital (WACC) (d) Calculate EVA = NOPAT – TC × WACC
136.	*What is meant by Market Value Added (MVA)?*	MVA is the difference between the current market value of a firm and the capital contributed by Investors. If MVA is positive the firm has added value. If it is negative the Firm has destroyed value.
137.	*What is meant by Shareholder Value Added (SVA)?*	**Shareholders Value Added** is a value-based performance measure of a company's worth to shareholders. It is measured by: Net Operating Profit after tax (NOPAT) – Weighted Average cost of capital (WACC)
138.	*What are the benefits of EVA?*	The benefits of EVA may be summarised as under: (a) Common language and focus for planning and managing (b) More accountability for delivering value (c) Greater concern for managing assets (d) Stronger emphasis on continuous improvement (e) Greater willingness to rationalise and redirect resources (f) Better bridge linking operations and strategy with financial results (g) Higher market value

Sl. No.	Questions	Answers
139.	*What is termed as black hole of business valuation?*	The term black hole has been taken from the world of cosmos to identify the area of the unknown. In business valuation the term black hole is usually termed as a perception gap of the opportunity placed on the table by the seller versus the opportunity visualized by the buyer. If the gap is minimal both the parties can reach a consensus to close in on the deal value. However, if this gap is large then there could be a wide gap between the valuation done by the seller and the buyer and this could result in a potential failure of the deal.
140.	*Miheer H. Mafatlal* v *Mafatlal Industries Ltd.*[1]	The Supreme Court held that, once the exchange ratio of the shares of the transferee-company to be allotted to the holders of shares in the transferor company has been worked out by a recognised firm of chartered accountants who are experts in the field of valuation, and if no mistake can be pointed out in the said valuation, it is not for the court to substitute its exchange ratio, especially when the same has been accepted without demur by the overwhelming majority of the shareholders of the two companies or to say that the shareholders in their collective wisdom should not have accepted the said exchange ratio on the ground that it will be detrimental to their interest. The Supreme Court concluded that the exchange ratio was not unfair or unreasonable.
141.	*Hindustan Lever Employees' Union* v *Hindustan Lever Limited and Ors*[2]	The Supreme Court dealt with the issue of what method should be adopted for arriving at a proper exchange ratio, and also discussed the problem of valuation in the case of amalgamation of two companies. It was held that since the valuer had adopted the combination of three well-known methods of valuation of shares to arrive at the exchange ratio of the two companies and the financial institutions holding 41% of the shares of the transferor company and did not find any fault in the method of valuation of the shares, the Court should not interfere with such valuation.
142.	Brooke Bond Lipton India Ltd.[3]	Calcutta High Court has held that in a scheme of amalgamation, if the ratio of exchange has been fixed by an experienced and reputed firm of chartered accountants, then in absence of any charge of fraud against them, court will accept such valuation and ratio of exchange. A mere allegation of fraud is not enough, it must be a proper charge of fraud with full particulars. In the instant case, there is no charge made or established.
143.	*Dinesh Vrajlal Lakhani* v *Parke Davis (India Ltd.)*[4]	The Division Bench of the Bombay High Court held that the Court will not interfere only because the valuation adopted by the valuer may have been improved upon had another method been adopted. The Court is neither a valuer nor an appellate forum to re-appreciate the merits of the valuation. What the court has to ensure is that the determination should not be contrary to law or unfair to the shareholders of the company which has been merged.

1 (1997) 1 SCC 579.

2 Special Leave Petition (civil) 11006 of 1994.

3 (1999) 98 Comp Cas 496 (Cal).

4 (2005) 124 Comp Case 728 (Bom HC).

Sl. No.	Questions	Answers
144.	*Dr. Mrs. Renuka Datla* v *Solvay Pharmaceutical B.V. and Ors.*[5]	The Supreme Court held that the valuer approached the question of valuation having due regard to the terms of the settlement and considered from all appropriate angles. No case has been made out that any irrelevant material has been taken into account or relevant material has been eschewed from consideration by the valuer. The plea that the valuation is vitiated by fundamental errors cannot but be rejected.
145.	*G.L. Sultania and Another* v *The Securities and Exchange Board of India*[6]	Supreme Court followed the principles laid down in the case of *Dr. Renuka Datla v B. V. Solvay Pharmaceuticals* (2004) 1 SCC 149 and held that valuation of shares is not only a question of fact, but also raised technical and complex issues which may be appropriately left to the wisdom of the experts, having regard to the many imponderables which enter the process of valuation of shares. If the valuer adopts the method of valuation prescribed, or in the absence of any prescribed method, adopts any recognised method of valuation, his valuation cannot be assailed unless it is shown that the valuation was made on a fundamentally erroneous basis, or that a patent mistake had been committed, or the valuer adopted a demonstrably wrong approach or a fundamental error going to the root of the matter. Where a method of valuation is prescribed, the valuation must be made by adopting scrupulously the method prescribed, taking into account all relevant factors which may be enumerated as relevant for arriving at the valuation.

5 Special Leave Petition (civil) 18035 of 2000.

6 Appeal (civil) 1672 of 2006.