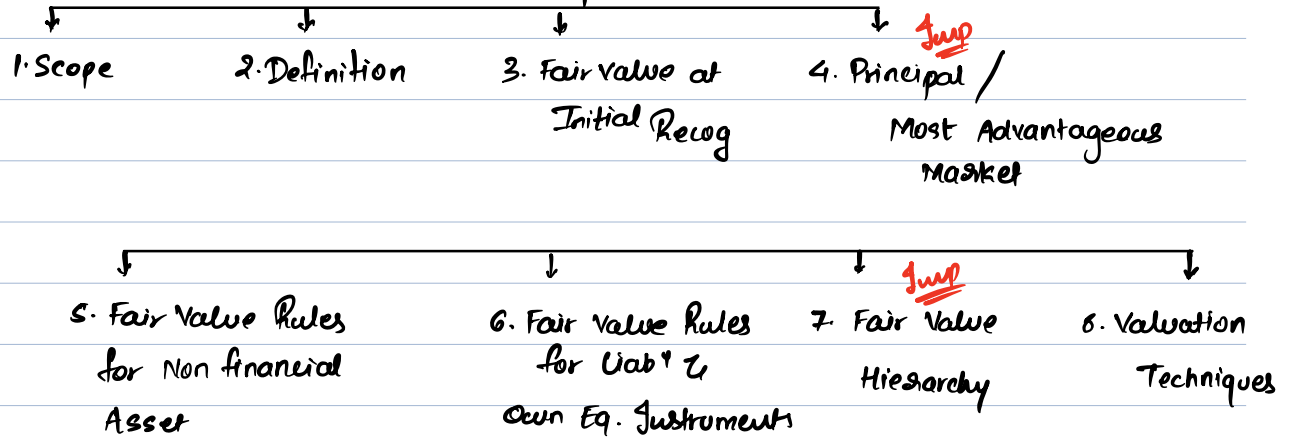
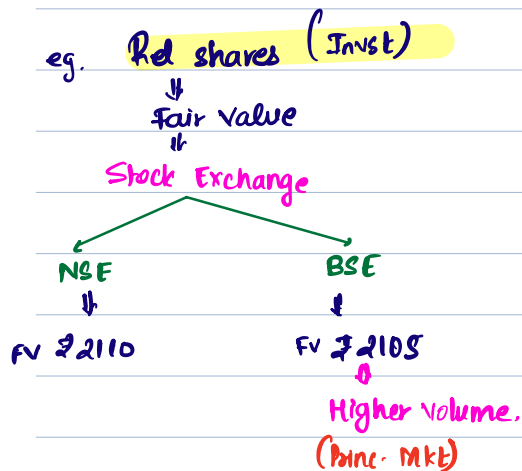


Ind AS 113 - Fair Value Measurement

[During Revision Focus more on Ques]



* Principal / Most Advantageous Market



→ Princ. Mkt (1st pref) → Higher Volume Trading → Assume (BSE).
 ∴ FV of Rel. share = ₹2105.

* If Princ. Mkt Not available → 2nd pref (Most Advantageous Mkt)

Eg.

	Mkt A	Mkt B
Selling Price	103	102
(-) Transportation cost.	(3)	(1)
(-) Transaction cost.	(4)	(8)
	<u>96</u>	<u>93</u>

most Adv Mkt
↓
Market A.

Fair Value = ~~96~~ Sell Price (-) Transportation cost

= 103 (-) 3

= 100

2 Step Procedure

① Find most Adv Mkt

S.P (-) Transportation cost
 (-) Transaction cost

② FV of most Adv Mkt

S.P (-) Transportation cost

(Do NOT deduct Transaction cost)

↓
 why? → Transaction cost treatment is to be done as per respective Ind AS.

Q1

(MTP / RTP / PP)

i) a) Mumbai Mkt $\rightarrow$ Price Mkt

FV = SP (-) Transportation cost

= 290 (-) 30

= 260

b) Price Mkt Missing $\rightarrow$ Find Most Adv Mkt

	Mumbai	Kolkata
Sell Price	290	280
(-) Transaction cost	(40)	(20)
(-) Transportation cost	<u>(30)</u>	<u>(30)</u>
	220	230
		$\downarrow$ most Adv

Kolkata Mkt (FV)

SP	280
(-) Transportation cost	<u>(30)</u>
FV	<u>250</u>

ii) Refer Q.B. Markings.

Illus 2

⑥ Mkt A → Prin. Mkt

Fair value

S.P	26
(-) Transportation cost	(2)
	<u>24</u>

⑥ Princ Mkt Missing → find Most Adv Mkt

	<u>Mum</u>	<u>Kol</u>
S.P	26	25
(-) Transaction cost	(3)	(1)
(-) Transportation cost	(2)	(2)
	<u>21</u>	<u>22</u>
		↓ Most Adv.

Mkt B (Fair Value)

S.P	25
(-) Transp Cost	(2)
	<u>23</u>

* Fair Value Rules (Point 6, 7, 8) → Summary

Equity Instrument / Deb / Ret Shares

↳ Active Market → Use Quoted Price of Active Mkt.

↳ IF NO Active Market Available (Not listed Co.) → Fair Value Hierarchy

Level 1 Input

• Use Quoted Price of

Identical Co. shares

(without any adjustment)

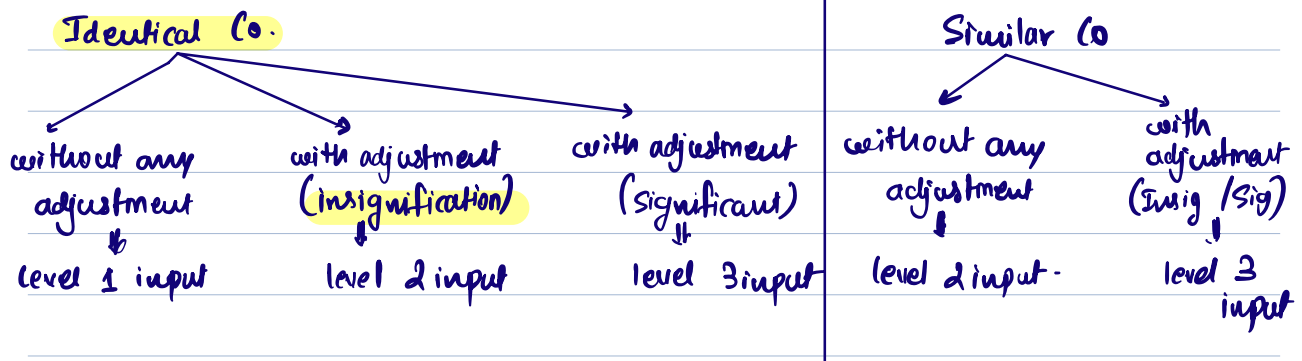
Level 2 input

• Use Quoted Price
of Similar Co.

Level 3 input

use:
• Valuation Techniques

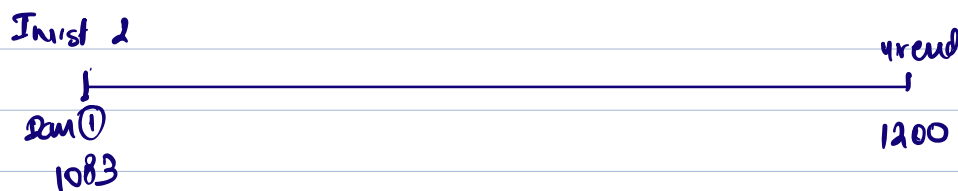
eg: Div Disc Model,
Gordon Growth Model,
Disc. Cash Flow Model.
etc



Similar Co. (without Adj) → L2
 Ident Co. (with adj insig) → L2
 Ident Co. (without Adj) → L1
 valuation technique → L3
 Ident Co. (with sig adj) → L3
 Similar Co. (with adj sig / insig) → L3

Active Market Available of own share → ~~L1~~ ~~L2~~ ~~L3~~
 NA.

Illus 1



(Invest 2 is more comparable to Invest 1)

as tenure is same.

Invest 2 = $PV = \frac{FCF}{(1+r)^n}$

$$1083 = \frac{1200}{(1+r)^1}$$

$$1083(1+r) = 1200$$

$$1083 + 1083r = 1200$$

$$1083r = 1200 - 1083$$

$$\therefore r = \frac{117}{1083} = 0.1079 \text{ i.e. } 10.80\%$$

use this for Invest 1

Fair Value (Present Value) of Invest 1 = $\frac{800}{(1.1080)^1} = 722$

Exms 4

ABC $\rightarrow$ Invest in XYZ Ltd $\rightarrow$ Fair Value $\rightarrow$ (?).
 $\downarrow$
(5%)

Comparable Company Method $\rightarrow$ Valⁿ Technique.

$$\frac{EV}{EBITDA} = 8$$

$$\frac{EV}{40} = 8$$

$$\therefore \text{Enterprise Value (of XYZ)} = 8 \times 40$$
$$= \boxed{320}$$

Invest held by ABC in XYZ (X) 5%.

$$\begin{array}{l} \text{16 crores.} \\ (-) \text{Discount } (5\% + 5\%) = 10\% \quad (1.6 \text{ crores}) \quad (16 \text{ cr} \times 10\%) \\ \quad \downarrow \quad \downarrow \\ \quad \text{liquidity} \quad \text{Non} \\ \quad \quad \quad \text{control} \\ \quad \quad \quad \text{stake} \end{array}$$

14.4 crores

$\downarrow$
Value of Invest in XYZ Ltd
(In ABC Books)

Illus 5 (WDR)

Yr	CIF (₹ in crores)	D.F @ 11%	PV
1	187.1		
2	187.6		
3	121.8		
4	269		
5	278.8 + 396.5		
Total Co.'s Value			<u>3105.76 crores</u>
(-) Debt			(1465)
(+) Cash Surplus			<u>106.14</u>
Total Value of Eq. Shares of PT Ltd.			1746.9 (₹ in crores)
÷ No. of shares			<u>8,51,84,223</u>
Value per share			<u>₹ 204.83</u>

Illus 6 → Refer Q.B.

Illus 8 (LOR)

Decomm^y for value $\rightarrow$ 10th yr end $\rightarrow$ Disc $\rightarrow$ Day ① PV.

$$\text{Labour cost} \left(\frac{100}{\times 25\%} (+) \frac{125}{\times 50\%} (+) \frac{175}{\times 25\%} \right) = 131.25$$

$$(+)\text{OH cost } (80\% \times 131.25) = 105$$

236.25

(+) Profit markup (20%)

47.25

283.5

(+) 5% Premium (283.5 $\times$ 5%)

14.175

297.675

(+) Inflation 4% for 10yrs $(1.04)^{10} = 1.4802$

($\times$) 1.4802

Decomm^y value (after 10yrs)

440.63

D.F (5% + 5.5%) for 10yrs

8.5%

PV of Decomm^y

194.88 approx

$$\left(\frac{440.63}{(1.085)^{10}} \right)$$

440.62 ($\times$) D.F of 10th yr @ 8.5%.

Illus 9

i) After Tax Profit = 70000

$$\frac{\text{Price}}{\text{Earnings}} = 15$$

Earnings

$$\frac{\text{Price}}{70000} = 15$$

70000

$$\text{Total Price} = 15 \times 70000$$

$$= 1050000$$

(-1) 20% Disc

$$\underline{840000}$$

$$\div \text{No. of shares } 5000$$

$$\text{Value per share } 168$$

$$\text{Fair Value of Co} = 850000$$

$$\div \text{No. of shares } 5000$$

$$\text{Value per share } 170$$