Lecture on Valuation

By Krishna

Download of videos

Link for Lecture on Valuation

http://www.youtube.com/watch?v=Mju8iTJqJpY

Link for Lecture on Valuation of Tangible fixed assets Part 1

http://www.youtube.com/watch?v=ShxJMXGbnCc

Link for Lecture on Valuation of Tangible fixed assets Part 2

http://www.youtube.com/watch?v=wA26zi_IWMU

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Valuation - Definition

Quantitative representation of values of business or Firm

Valuation = Value of Tangible Assets + value of Intangible Assets

Intangible Assets

An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. (AS 26)

Why valuation?

- *Purchase of Business*
- *Merger of Business*
- *Liquidation*
- *Joint venture*
- *Investments*
- *Taxation*
- *Financing*
- *Section 211 of*
- *Companies Act - True & Fair View*

What to Value?

- *Business / Entity*
- *Shares*
- *Tangible Fixed and Current Assets*
- *Long Term and Current Liabilities*
- *Intangible Fixed Assets*

Basis of valuation ?

- *Historical Cost*
- *Current Cost*
- *Realizable Value*
- *Present Value*
- *Recoverable Amount*
- *Liquidation Value*
- *Fair value*

Situation / Type of Values

Going Concern Value
Liquidation
Book Value
Market Value
Fair Market Value
Intrinsic Value
Exit Value

Valuation – Approaches / How to Value ?

- *Income Approach*
- *Market Approach*
- *Asset-based Approach*

Valuation of Tangible Fixed Assets

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Valuation of Tangible Fixed Assets

What Does Original Cost Mean?

All of the costs directly associated with purchasing an asset and putting it into use.

Gross Block	*XXXXX*
Add : Additions during the year	*XXXX*
Less : Deletions during the year	*XXX*
Less : Accumulated Depreciation	*XXX*
Less : Impairment Loss (As 28 & IAS 36)	
Net Block	*XXXXX*

Add / Less to Purchase Cost

Add :	*Less:*
Duties & Non refundable Taxes paid	*Discounts received*
Installation cost	*Grants / Rebates received*
Delivery & Handling charges	*Exchange fluctuation - Favourable*
Foundation & Site preparation	*Revaluation - Decrease*
Professional fess directly related	*Impairment of assets - Decrease*
Specific Overhead expenses	
Specific Finance cost till the start of use of asset	
Exchange fluctuation - Adverse	
Improvements to assets	
Revaluation - Increase	
Impairment of assets - Increase	

Treatment of Impairment of Asset

If Recoverable Amount < Carrying Amount

Replace the carrying Amount with Recoverable Amount value.

The Loss should be transferred to P & L a/c

Recoverable amount is the higher of an asset's net selling price and its present value in use

Treatment of Impairment of Asset

If Recoverable Amount increases later on

Add the difference to the asset value

Caution : At any point the Carrying amount after increase should not be more than the original carrying amount

Treatment of Revaluation Reserve

1) If Increase in Revaluation :

Debit Fixed Assets a/c

Credit Revaluation Reserve a/c

2) Depreciation should be calculated including the revaluation value

3) The relevant portion of depreciation on Revaluation amount

Debited to Revaluation Reserve a/c

Credited to P & L a/c

Treatment of Revaluation Reserve

If Decrease in Revaluation Reserve

Debit Revaluation Reserve a/c

Credit Asset a/c

Treatment of Revaluation Reserve

While selling the Asset

If there is a loss it can be adjusted as below

Debit Revaluation Reserve a/c

Credit Asset a/c

Balance loss if any to be transferred to P & L a/c

Balance in Revaluation Reserve if any should be transferred to General Reserve

Change in Depreciation Method

1. ***Reverse the all the depreciation done based on old method***
2. ***Find Depreciation using the new method as if it is applicable from the starting point of the asset purchase.***

Change in useful life of asset

Unamortized amount should be charged to P & L only based on the revised useful life of the asset.

Revision in the value of asset

The revised value (either plus or minus) of the asset should be depreciated over the remaining useful life of the asset