BLOCK VI:
VALUATION OF ASSET, LIABILITIES AND OWNERS' EQUITY

Unit-1
Valuation of Assets, Liabilities and Owners' Equity

Unit Structure:

1.1 Introduction

The correctness of a company's balance sheet is dependent on accurate asset, liability, and equity valuations. The valuation was completed by an expert for the aim of making a decision. Management must determine if assets are valued in accordance with Generally Accepted Accounting Principles. To put it another way, knowing the financial status of a company necessitates asset, liability, and equity appraisal.

1.2 Objectives

After going through this unit, you will be able to-

- understand the concept of valuation of assets,
- understand the valuation of liabilities,
- explain the significance of valuation of assets and liabilities,
- analyse the need for valuation of shares.

1.3 Valuation of Assets

The phrase "Valuation of Assets" is made up of two words: valuation and assets. The definition of valuation is an estimate of a thing's worth or a price placed on it, especially by a professional valuer. The phrase value refers to the amount of a product, money, or other item that may be exchanged for something else. A resource with economic worth that an individual, organisation, or country possesses or controls with the hope of future benefits is referred to as an asset. Assets are purchased or developed to raise a company's value or benefit its operations and are reported on the Balance Sheet. An asset is anything that can generate cash flow, cut expenses, or increase sales in the future, regardless of whether it's tangible or intangible.

Stop to Consider

As per Accounting Standard issued by ICAI Property, Plant and Equipment has been specified in AS 10 and as per Ind Accounting Standard Property, plant and Equipment has been given in IND AS 16.

1.3.1 Objectives and Necessity of Valuation of Assets

1. To provide the user with information on the accounting value of the firm's assets as of a specific date (balance sheet date).
2. To meet the requirements of Indian Accounting Standard 16 Property, Plant, and Equipment, as notified by the MCA.
3. Asset valuation is necessary for determining the entity's worth.
4. A valuation of assets is essential for obtaining a loan from a financial institution for a going concern.
5. Asset appraisal is required by many credit rating organisations such as CRISIL, CARE, and others.

6. Asset valuation is essential for a company's reconstruction or reorganisation procedure.

7. Proper valuation is required to assess the sale value of the concern or unit of the concern that is being sold.

1.3.2. Methods of Assets Valuation

Several methods are applied to different assets, and in some circumstances, many methods are applied to a single asset for various objectives by different people. The following are some of the methods:

1. Historical Cost Method/Cost Method- The cost method is the most straightforward method for valuing assets. It is done on the basis of the asset's value based on the historical price at which it was purchased.

2. Market Value Technique- The market value method determines the asset's value based on its current or predicted market price when sold on the open market. The replacement cost approach, also known as the net realisable value method, is utilised when there are no comparable assets on the open market.

3. Replacement Cost Method -The replacement cost approach includes determining the value of an asset by comparing it to the current cost of replacing it with a similar asset in similar condition in an arms-length transaction. This strategy is founded on the idea that a buyer will not pay more for an asset than the price of a similar asset, and a seller will not take less. This strategy is used to value the complete company as well as its individual assets.

4. The net realisable value Method- The net realisable value method is a typical approach for determining the value of an asset in inventory accounting. It is calculated by subtracting the estimated selling price of an asset from all costs involved with the asset's future sale, and then computing the difference.

5. Base Stock Method- The base stock method requires a corporation to maintain a set number of stocks whose value is determined by a base stock's value.

Check Your Progress

1. What is meant by asset?
2. What is valuation of assets?
3. What are the significances of valuation of assets?
4. What are the different methods used for valuation of assets?

1.4. Valuation of Inventories

Inventory refers to the stock of raw materials used to manufacture goods for sale, the stock of semi-finished and finished goods destined for sale, and other items in the shop that are commonly used in the manufacturing and sale process. The monetary value associated with the goods in inventory at the end of an accounting period is known as inventory valuation. The price is determined by the costs of acquiring the goods and preparing it for sale. Inventories are the most valuable current assets of a firm. Inventory valuation aids in determining the cost of goods sold (COGS) and, ultimately, the firm's profitability.

Stop to Consider

Valuation of Inventories is done as per AS 2 and inventories are mentioned in IND AS 2.

1.4.1 Significance of Inventory Valuation

1. Assists in calculating genuine profit: Inventory valuation is crucial in deciding a company firm's profit over a given time period. If inventory is not valued correctly, profit determination is incomplete.
2. Importance for Liquidity Analysis: Net working capital is necessary to determine a company's liquidity status, which is defined as the difference between current assets and current liabilities. Inventory is a large component of current assets, hence correct inventory value is essential.
3. Impact on the Balance Sheet: If inventory is not properly valued, the balance sheet will not reflect the actual and fair state of the company.

4. Statutory Compliance: It is a legal need to follow Indian Accounting Standard 2 Inventories, which states that financial statements must disclose the accounting policies used to measure inventories.

1.4.2 Methods of valuation of inventory

1. First In, First Out (FIFO): When valuing inventory, the FIFO method is utilised to price both the issue of materials to production and the cost of goods sold. This strategy is used for sending supplies to the plant or valuing the cost of goods sold when actual sales occur, and earlier purchase prices are used in chronological sequence. After the first batch of materials purchased in the first issues has been used, the price of the second batch of purchases is applied to the succeeding issues.
2. Last in First Out (LIFO): LIFO is the polar opposite of FIFO when it comes to inventory value. The prices of recent acquisitions are applied in chronological order when issuing materials to the factory or calculating the cost of goods sold using this approach. After the first issue of the last lot of material purchased, the price of the previous lot of material purchased is used for the next issue
3. Simple Average Method: This is an inventory valuation or delivery cost calculation method in which the average unit cost is computed by multiplying the total of these unit costs by the number of receivings, even if the inventory goods have various unit costs.
4. Weighted Average Cost Method: The weighted average is used to establish the amount that goes into the cost of products sold and inventories in the weighted average cost method. The following formula is used to compute the weighted average cost per unit: Total Cost of Goods in Inventory / Total Units in Inventory

   This method is typically used to calculate the cost of units that are indistinguishable from one another and when tracking individual prices is challenging.

Check Your Progress

1. What is inventory?
2. Valuation is necessary for inventory?
3. State the different methods of valuation of inventory.

1.5 Valuation of Other Fixed Assets

Other fixed nature assets are divided into two categories: wasted assets and fictitious assets in terms of valuation. Wasted assets, often known as diminishing assets, exist on both a physical and legal level. Wasting assets have a fixed value but are gradually diminished or consumed. The process of earning money causes the value of the assets to deplete or exhaust. Mines, oil wells, and quarries are examples of wasting assets. The expected amount of yearly depletion is deducted from the value of the wasting assets in the Balance Sheet. In other words, the anticipated lowered value of a wasted asset appears on the Balance Sheet.

Fictitious assets are assets that do not exist in the physical existence. Preliminary Expenses incurred at the time of the company's establishment, Development Expenses, Debenture Discount, Amount spent on special promotional campaign, Brokerage, Underwriting Commission, and deferred revenue expenditure are all examples of fictitious assets. Deferred revenue expenditure is applied to fictitious assets. Deferred Revenue Expenditure refers to the temporary capitalization of revenue expenditure with the goal of spreading the cost over multiple future years. In the Balance Sheet, the asset is valued at the amount of expenditure incurred less the amount written off.

1.6 Valuation of Goodwill

Goodwill is an intangible asset that cannot be seen or felt, but which can be bought and traded and is genuine. Some examples of goodwill include a company's brand name, a strong consumer base, functioning consumer relationships, positive employee affiliations, and any patents or proprietary technology.

In other words, goodwill is a long-term value or reputation. The value of goodwill in a partnership is quite important. The valuer's assumption is used to determine the value of goodwill. Unlike new businesses, a successful company establishes a reputation in the market, builds trust with its customers, and has a larger network of business contacts. All of these factors add to a customer's willingness to evaluate the firm and its financial worth.

Customers who purchase a firm based on its goodwill expect to make huge gains. As a result, goodwill only applies to companies that make super-profits, not to those that make normal losses or profits.

Stop to Consider

Valuation of intangible assets are given in Accounting Standard 26 and as per Indian Accounting Standard it has been given in Ind AS 38

1.6.1 Need for Valuation of Goodwill

The need for goodwill value varies by company. This indicates that the necessity for goodwill appraisal varies based on the type of corporate organisation. When a company is sold, the only time it is necessary to value its goodwill is when it is sold. The following are some of the situations in which goodwill is required:

1. In a partnership, there is a requirement for goodwill appraisal if partners retire, expire, or are newly admitted.
2. In a company-Valuation of goodwill is required in the event of a merger or the acquisition of a controlling interest.
3. In a sole proprietorship, purchase considerations and the sale of a business are examples of instances where goodwill value is essential.

1.6.2 Methods of Valuation of Goodwill

1. Arbitrary Method: When two parties agree on a value for goodwill, it is referred to as the arbitrary method of goodwill valuation.
2. Average Profit Method: In this method, the average profit of the previous few years is multiplied by one or more years to determine the firm's goodwill value. The average profit which is multiplied by the number of years for ascertaining the value of goodwill is known as Years Purchase. It's also known as the Average Profit Basis Method or the Purchase of Past Profit Method. it is called arbitrary method of valuation of goodwill.

   The value of Goodwill =(total profits of all concerned past year ÷ Number of years) × year's purchase
3. Weighted Average Profit Method: This method is a modified version of Years' Purchase of Average Profit Method . In this method, each year's profit is multiplied by the appropriate number of weights, such as 1, 2, 3, and so on, to determine the value of the product,

which is then divided by the total number of weights to determine the weighted average profit. In order to determine the value of goodwill, the weighted average profit is multiplied by the years of purchase. This strategy is particularly useful when profits are on the rise.

Weighted Average Profit= Total Profit for the all the years÷ Number of Years

Value of Goodwill= Weighted Average Profit x Years Purchase

4. Capitalisation Method: This method determines the worth of the entire firm based on regular profit. The difference between the business's values minus Net Tangible Assets is referred to as goodwill.

   Value of Goodwill= (Net Profit ÷ Normal Rate of Return) ×100 – Net Assets

5. Capitalisation of Weighted Average Profit Method: This method is similar to the capitalisation method discussed before, only weighted average is used instead of simple average. Weights are assigned to each year's profit on a rational basis. Weights are usually assigned in the following order: first year 1, second year 2, third year 3, and so on.

6. Super Profit Method: The difference between the average profit made by the business and the normal profit (based on the normal rate of return for representative firms in the industry), i.e. the firm's expected excess earnings, is referred to as super-profit. As a result, there will be no goodwill if there is no predicted extra earnings over regular earnings.

   Super-Profit = Average Profit (Adjusted) – Normal Profit

   Value of Goodwill = Super-Profit x Years' Purchase

7. Capitalisation of Super-Profit Method:

   Under the method, we are to consider super-profit in place of ordinary profit against the normal rate of return.

   Value of Goodwill = Super-Profit/Normal Rates of Returns x 100

8. Weighted Average Super Profit Method: This method is similar to the super profit method, with the exception that super profit is

calculated using weighted averages of historical profits. Super profit is the difference between weighted average profit and regular profit. Value of Goodwill: Weighted Average Super Profit × Number of years' purchase

9. Sliding Scale Valuation Method: With this method, the profit distribution connected to super-profit might vary from year to year. In other words, sliding scale valuation of an enterprise's super-pr8fits may be examined in order to determine the value of goodwill.
10. Annuity Method: Annuity tables are used to calculate the value of goodwill in this method. An annuity is a set of equal periodic payments that are made at regular intervals. To calculate the value of goodwill, take the value of the annuity and multiply it by the annuity factor at a specific rate of interest for a certain number of years.

Illustration 1:

The profits of a firm for the last four years were as follows: 2016: Rs. 70,000, 2017: Rs. 90,000, 2018: Rs. 1,00,000 and 2019: Rs. 1,00,000.

Calculate the goodwill of the firm taking 5 year's purchase of the average profits.

Solution:

Average Profit= (Rs. 70,000+ Rs. 90,000 + Rs. 1,00,000 + Rs. 1,00,000) ÷4= Rs. 90,000

Therefore, Value of goodwill at 5 years purchase of average profit= average profit× 5

90,000×5= Rs. 4,50,000

Illustration 2:

The profit of B.H. Ltd for the last five years and the corresponding weights are as follows.

Year:	2014	2015	2016	2017	2018
Profit:	70,000	90,000	1,00,000	1,20,000	1,40,000
Weight:	1	2	3	4	5

Calculate the value of goodwill on the basis of 3 years' purchase consideration of the weighted average profit.

Solution:

Year	Profit	Weight	Product
2014	70,000	1	70,000
2015	90,000	2	1,80,000
2016	1,00,000	3	3,00,000
2017	1,20,000	4	4,80,000
2018	1,40,000	5	7,00,000
		15	17,30,000

Weighted Average Profit: 17,30,000÷15 = Rs. 1,15,333

Illustration 3:

A firm's normal return is 15%., of its net assets. The actual profit earned Rs. 75,000. Its value of net assets is Rs. 3,00,000. What is the value of goodwill?

Solution:

Value of the goodwill = Capitalised value of profit- Net Tangible Assets

Capttalised value of profit = (Net Profit÷ Normal Rate of Return) × 100

(75,000÷15)×100 = Rs. 5,00,000

Value of Goodwill= 5,00,000-3,00,000 = Rs. 2,00,000

Illustration 4:

M/s Jugal & sons Ltd. earned the following profits for the last five years: Rs. 30,000, Rs. 41,000, Rs. 42,000, Rs. 51,000 and Rs. 57,000. The Normal rate of Return is 15% . Ascertain the value of Goodwill when net assets are Rs. 3,00,000(assume suitable weights).

Solution:

Since profits are rising, so weights are assumed as 1,2,3,4 and 5 for consecutive five years.

Calculation of weighted average profit

Profits	Weights	Product
30,000	1	30,000
41,000	2	82,000
42,000	3	1,26,000
51,000	4	2,04,000
57,000	5	2,85,000
	15	7,27,000

Weighted Average Profit= 7,27,000÷15= Rs. 48,467

Capitalised value of weighted average at 15 % rate of return=

(Weighted Average Profit÷ Rate of Return)×100

=(48467÷15)×100 = Rs. 3,23,113.33

Value of Goodwill= Captalised value of weighted average profit- Actual value of net assets

3,23,113.33-3,00,000 = Rs. 23,113.33

Illustration 5:

From the following particulars of M/s Paul Ltd., calculate the value of goodwill for 3 years purchase of the super profit:

Net Profit Rs. 50,000

Capital Employed Rs. 2,00,000

Normal Rate of Return 10%

Solution:

Return on Capital Employed = (10÷100)×2,00,000 = Rs. 20,000

Super Profit = net profit- return on capital employed = 50,000- 20,000 = Rs. 30,000

Therefore, Value of Goodwill = Super Profit × 3

= 30,000× 3 = Rs. 90,000

Check Your Progress

1. Write a short note on wasting assets and fictitious assets.
2. What is goodwill?
3. State the circumstances in which there may be need for valuation of goodwill.
4. Write short notes on different methods of valuation of goodwill.

1.7 Valuation of Liabilities

The entire left hand side of the position statement might be regarded as liabilities according to entity theory: Assets = Liabilities, however proprietary theory considers liabilities to be significantly different from ownership, which is the owners' residual stake in the assets after liabilities have been deducted.

Liabilities are defined by the Accounting Principle Board as "economic obligations of an enterprise that are reorganised and measured in accordance with generally accepted accounting principles," while the FASB of the United States defines liabilities as "possible future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of a past transaction or event."

Liabilities are unique from ownership interests in that they only cover responsibilities to third parties and must exist at the present moment as a result of previous transactions. The term "present obligations" encompasses not only legal responsibilities, but also any constructive liabilities incurred by the firm as a result of dealings with third parties. The maturity dates of liabilities should be specified.

Any liability can be shown as a liability in a balance sheet if it meets and conforms to the definition of a liability, is measurable, relevant, and reliable. In terms of valuation, because liabilities are future sacrifices of economic benefits, their true values should be discounted present values, but other valuation bases such as replacement value, realisable value, and so on can also be used. Because the amount of payment is known with certainty and the time period involved is almost negligible, the discounted technique should not be used in the case of current liabilities.

1.7.1 Measurement of Liabilities and Standards

ICAI in India has issued AS-29 titled provisions, contingent liabilities and contingent assets and IASC has issued 1AS-37 with the same title. FASB of 45 A has issued FAS 157 with the title "Fair value Measurement" which defines the fair Value of a liability as the price that would be paid to shift the liability in a proper transaction between participants of the market at the date of measurement.

An exposure draft of FASB of USA staff position no 157-C was issued on 18th Jan. 2008 and revised on 1 June 2009 as FSP 157-f which concentrated on the question of how to measure fair value of liabilities. FSP-157-f requires that fair value of liabilities be measured by using one of the following mentioned approaches which should maximize the use of relevant observable inputs and minimize the unobservable inputs.

1. When traded as an asset in the active market, the quoted price of an equivalent liability.
2. The quoted price of an identical liability or the quoted price of an identical liability when exchanged as an asset in the market.
3. In an active market, the quoted price of equivalent liabilities or similar obligations when traded as assets.
4. Another valuation technique that violates FAS 157 is the present value technique, sometimes known as the income approach.

Stop to Consider

ICAI in India has issued AS-29 titled provisions, contingent liabilities and contingent assets and IASC has issued IAS-37 with the same title.

1.7.2 Valuation of Current Liabilities and Contingent Liabilities

Current liabilities are those that will be paid or need the use of current assets within a year (or the operating cycle, if longer), or that will result in the formation of new current obligations. Liabilities, like assets, are initially measured and documented using the cost principle. That is, the liability is quantified and recorded at the current market value of the asset or service received at the time it is incurred. Current liabilities are recorded at their

face value because they are due in a short period of time. This is the amount of money required to pay off the debt's principle.

A contingent liability is a possible liability that may or may not materialise based on the outcome of a future event that is unpredictable. The significance of a contingent liability is determined by the likelihood of the contingency becoming an actual liability, the timing of the contingency, and the precision with which the amount connected with it can be calculated. The amount of contingent liabilities is not included in the balance sheet total. Contingent liabilities are represented in the liability side of the balance sheet. These liabilities must be reported in the financial statements' footnotes.

Check Your Progress

1. What is meant by liabilities?
2. How Current liabilities and contingent liabilities are valued?

1.8 Valuation of Share

A component unit of a joint stock or common stock is termed as share. A share reflects a member's stake in the company, which is a movable property that can be transferred in accordance with the firm's Articles of Association.

According to section 2(84) of the Companies Act, 2013, "Share" means a share in the share capital of the company and includes stock.

The monetary value of a share is referred to as its value. It could be the book value or the price at which it can be purchased or sold.

1.8.1 Need for Valuation of Share

In most situations, shares are quoted on the stock exchange, and the price prevailing on the stock exchange can be used as the suitable value for regular transactions in shares, debentures, or government securities.

For very large quantities, the stock market price does not hold up. Furthermore, not all shares are traded on a stock exchange. Private company shares will not be quoted in any case. As a result, if shares in such a corporation to be traded, the value of such shares must be determined.

The following are the situation where share need valuation-

1. For Amalgamation- When two or more companies decide to merge, a fair share valuation is required.
2. For Reconstruction- When a firm decides to reconstruct, it is necessary to value its stock.
3. For Conversion into Equity Shares- When preference shares and debentures are converted into equity shares, a new value of the shares should be used.
4. Controlling Interest Acquisition- When controlling shares or majority shares are sold or purchased, a new valuation of shares is required because Stock Exchange quotations are only valid for small quantities of shares.
5. For security reasons- When a company's shares are used as collateral for a loan, a share valuation is required.
6. For Government Acquisition of Shares- When the government takes over the shares of a limited company under a nationalisation scheme, the company's shares must be valued.

1.8.2 Methods of Valuation of Equity Shares

In practice, the following methods of valuation of shares are in use. These are

1. Assets Backing Method (also known as Intrinsic Value Method, Net Assets Methods, or Assets Valuation Method): This method is also known as Intrinsic Value Method, Net Assets Methods, or Assets Valuation Method. The value of one equity share is computed as follows: Equity Shares= Net Assets ÷Number of Equity Shares.

   Deducting liabilities from the total realisable assets yields an estimate of net asset value. The value of the net assets is divided by the number of outstanding shares to get the net backing for each share.
2. Capitalisation of Profit Method or Yield Method: Yield refers to a company's earnings or productivity in relation to its investments. In the context of equity share pricing, yield refers to the gains accessible to equity shareholders. The reward to equity stockholders could be in the form of a higher earning yield. The profit attributable to each equity share is referred to as the earning yield.

Value of each equity share= (Expected Rate of Earnings/ Normal Rate of Return) x Paid up value of a share

3. Fair Value Method/Hybrid Method: Some accountants prefer not to employ Intrinsic Value or Yield Value when determining the exact share value. They do, however, recommend the Fair Value Method, which is a combination of the Intrinsic and Yield Value Methods. The last method gives a better indicator of the value of shares than the first two.

   Value of share= (Intrinsic value per share+ Yield Value per share)÷2

1.8.3 Factors Affecting the Value of Share

The factors which affect the valuation of shares are classified into two groups:

A) Internal factors include:

a) Asset net worth
b) Asset earning capacity
c) Return on Investment
d) Earnings per share
e) Dividend per share

B) External factors include:

a) Country's general economic situation
b) Political and social environment
c) International economic scenario
d) International political environment
e) Share demand
f) Insider trading
g) Industry growth prospects

Illustration 1:

The following particulars are available in relation to a company:

Total Assets	
Rs. 18,50,000	
8% Debentures of Rs. 10 each	Rs. 4,80,000
Other External Liabilities	Rs. 1,50,000
Share Capital:	
40,000 Equity Shares of Rs. 10 each fully paid	Rs. 4,00,000
50,000 Equity Shares of Rs. 10 each, Rs. 7.50 paid	Rs. 3,75,000

Calculate the value of each category of equity shares of the company.

Solution: Assets Backing Method:

Computation of net worth-		
Total Assets		Rs. 18,50,000
Less: Liabilities		
8% Debentures	4,80,000	
Other external Liabilities	1,50,000	Rs. 6,30,000
		Rs. 12,20,000
Add: Notional Call on Equity Shares		
50,000 equity shares @ Rs. 2.50		Rs. 1,25,000
Net Assets available to Equity Shareholders		Rs. 13,45,000
Value of 1) Fully paid up share	13,45,000÷90,000	= Rs. 14.94
Partly paid up share	(14.94-2.50)	=Rs. 12.44

Illustration 2:

The following particulars are available in relation to a company:
Share capital: 450, 6% preference shares of Rs. 100 each fully paid; 4,500 Equity Shares of Rs. 10 each fully paid.
Other Equity: General Reserve Rs. 3,500:
External Liabilities Rs. 7,500;
The average profit (after taxation) earned every year by the company Rs. 8,505;
The normal profit earned on the market value of equity shares fully paid of the same type of companies is 9%.
Calculate the fair value of equity shares assuming that out of the total assets worth Rs. 350 are fictitious. Transfer Rs. 1,000 to general Reserve.

Solution:

A) Calculation of Intrinsic value of Equity Shares

Equity Share Capital	
Rs. 45,000	
Preference Share Capital	
Rs. 45,000	
General Reserve	
Rs. 3,500	
External Liabilities	Rs. 7,500
Total Liabilities=	Rs. 1,01,000
Total Assets=	Rs. 1,01,000
Less: Fictitious Assets	Rs 350

External Liabilities	Rs. 7,500
	Rs. 7,850
Net Assets available to Equity shareholders	Rs. 93,150
Less: Preference Share Capital	Rs. 45,000
Net Assets available to Equity Shareholders	Rs. 48,150

Therefore, intrinsic value of Equity Share= Rs. 48150÷4,500

Rs. 10.70

B) Calculation of value of Equity Shares on Earning Yield Basis

Average Profit (after tax)	Rs. 8,505
Less: Preference Dividend 6% on 45,000	Rs. 2,700
	Rs. 5,805
Less: Transfer to Reserve	Rs. 1,000
Average Profit available to Shareholders	Rs. 4,805
Capitalised value at 9% = (Rs. 4,805×100) ÷9	= Rs. 53,389

Therefore Value Per share= Rs. 53,389÷ 4,500 Equity Shares

= Rs. 11.86

C) Calculation of fair value of share

(Intrinsic value of share + Yield value of share) ÷2

= (10.70+11.86)÷2

= Rs. 11.28

Check Your Progress

1. What is meant by valuation of share? Mention the situations where the need for valuation of share arises.
2. Write a short note on various methods of valuation of shares.

1.9 Summing Up

- The reliability of a company's balance sheet is dependent on accurate asset, liability, and equity valuations.

- Valuation of Assets is composite of two words namely valuation and assets. The definition of valuation is an estimate of a thing's worth or a price placed on it, especially by a professional valuer. The phrase value refers to the amount of a product, money, or other item that may be exchanged for something else. A resource with economic worth that an individual, organisation, or country possesses or controls with the hope of future benefits is referred to as an asset.

- The Historical Cost Method/Cost Approach, Market Value Method, Replacement Cost Method, Net realisable value method, and Base stock method have all been used to value assets.The accuracy of the balance sheet of a company depends upon the accurate valuation of assets, liabilities and equities.

- The monetary value associated with the goods in inventory at the end of an accounting period is known as inventory valuation.

- Inventory is valued using a variety of methodologies, including FIFO, LIFO, Simple Average Method, and Weighted Average Method.

- Other fixed nature assets are divided into two categories: wasted assets and fictitious assets in terms of valuation.

- The projected lowered value of a wasted asset appears on the Balance Sheet.

- The fictional asset is shown in the Balance Sheet at the amount spent less the amount written off.

- Goodwill is an intangible asset that cannot be seen or felt, but which can be bought and traded and is genuine.

- The valuer's assumption is used to determine the value of goodwill.

- In terms of liability valuation, because liabilities are future sacrifices of economic benefits, their true values should be discounted present values; nevertheless, other valuation bases such as replacement value, realisable value, and so on might be used.

- "Share" refers to a share of the company's share capital, which includes stock.

1.10 Model Questions

1. State the circumstances in which there may be a need for valuation of goodwill.
2. What is goodwill? Write short notes on different methods of valuation of goodwill.
3. What is meant by asset? What are the significances of valuation of assets?
4. What are the different methods used for valuation of assets?

5. What is inventory? Why valuation is necessary for inventory?
6. State the different methods of valuation of inventory.
7. Write a short note on wasting assets and fictitious assets.
8. What is meant by liabilities?
9. What is meant by valuation of share? Mention the situations where the need for valuation of share arises.
10. Mention the factors which influence the valuation of a company's share.
11. Write a short note on various methods of valuation of shares.

1.11 References and Suggested Readings

Books:

Sikider Sujit and Gautum H.C. *"Financial Statement Analysis."*Kolkata: New Central Book Agency(p) Ltd, April 2002.

Bhattacharyya Asish K. "Corporate *Financial Reporting and Analysis*." Delhi: PHI learning Private Limited, September 2018.

Dam B.B. and Gautum H.C. "*Corporate Accounting."* Guwahati: Gayatri Publications, December 2019.

Dam B.B., Gautum H.C., Chakraborty D., and Barman J.K., "*Financial Accounting."* Guwahati: Gayatri Publications, September 2019.

Websites:

Accountingnotes.net/shares/valuation-of-shares/valuation-of-shares-need-and-methods-with-illustrations/8878

Corporatefinanceinstitute.com/resources/knowledge/finance/asset-valuation/

Vedantu.com/commerce/valuation-of-goodwill

Freshbooks.com/hub/accounting/inventory-valuation

https://corporatefinanceinstitute.com/resources/knowledge/accounting/what-is-contingent-liability/

https://learn.financestrategists.com/explanation/liabilities-and-contingencies/current-liabilities-definition/

******

Unit-2
Applications of Relevant Accounting Standard in the Valuation of Assets, Liabilities and Owners' Equity

Unit Structure:

2.1 Introduction

Asset valuation is one of the most important things that need to be done by companies and organizations**.** Valuation of Assets or asset valuation is a **process of determining the present market value of the assets of the** business **as shown in the** balance sheet **of the company** based on universally accepted accounting principles. Accounting Standards are the written form of statements which consists of rules, principles and guidelines to be used consistently and uniformly for the preparation and presentation of financial statements by a business entity. These Accounting Standards lay down the accounting policies and practices explaining as to when and how the financial transactions should be measured, recognized and disclosed in the books of accounts of an entity. The application of Accounting Standards (AS) not only ensures the transparency, reliability and consistency but also sets the formal boundaries within which the financial transactions should be reported by any business entity.

2.2 Objectives

After going through this unit, you will be able to appreciate

- *Understand the concept* of Accounting standard
- *describe* the relevant accounting standard for valuation of assets and liabilities.
- *explain* the valuation of different assets as per accounting standard.
- *describe* the valuation of liabilities as per accounting standard.

2.3 Accounting Standard

Accounting Standards are the written form of statements which consists of rules, principles and guidelines to be used consistently and uniformly for the preparation and presentation of financial statements by a business entity. These Accounting Standards lay down the accounting policies and practices explaining as to when and how the financial transactions should be measured, recognized and disclosed in the books of accounts of an entity. The Accounting Standard Board (ASB) of the Institute of Chartered Accountants of India (ICAI) has framed and issued these set of standards. The application of Accounting Standards (AS) not only ensures the transparency, reliability and consistency but also sets the formal boundaries within which the financial transactions should be reported by any business entity. It is the responsibility of management to prepare and present financial statements in compliance with the relevant applicable accounting standards.

Stop to Consider

The Accounting Standards (AS) provides us with a framework to regulate the financial statements of the companies or business organization so that they do not report misleading information in their financial statements. The main aim of accounting standard is to ensure transparency, reliability, consistency, and comparability of the financial statements.

Check Your Progress

1. What is accounting standard?
2. Describe the meaning of valuation of assets and liabilities.

2.4 Valuation of Different Assets and application of Relevant Accounting Standard

2.4.1 Valuation of Inventories

AS-2 (Ind AS-2) deals with the determination of value at which inventories are carried in the financial statements, including the ascertainment of cost of inventories and any write-down thereof to net realisable value.

Accounting Standard 2 is applicable in accounting for inventories other than:

- work in progress arising under construction contracts, including directly related service contracts.
- work in progress arising in the ordinary course of business of service providers;
- shares, debentures and other financial instruments held as stock-in-trade; and
- producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at net realisable value in accordance with well established practices in those industries.

As per Accounting standard definition of the inventory includes:

- Held for sale in the ordinary course of business i.e. finished goods.
- Goods which are in the production process i.e. work in progress.
- Raw material which are consumed during production process or rendering of services.

Valuation of Inventories:

Inventories should be valued at lower of cost and net realizable value.

Following are the steps for valuation of Inventories:

a) Determine the cost of inventories
b) Determine the net realizable value of inventories
c) Comparison between the cost and net realizable value, the lower of the two is considered as the value of inventory.

Cost of Inventories:

The cost of inventories should comprise the following:

a. All costs of purchase,

b. Costs of conversion, and

c. Other costs incurred in bringing the inventories to their present location and condition.

a. **Costs of purchase:** The costs of purchase consist of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase.

b. **Costs of conversion:** The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion is based on the normal capacity of the production facilities. Variable production overheads are assigned to each unit of production on the basis of the actual use of the production facilities. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products as well as scrap or waste materials, by their nature, are immaterial, when this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

C. **Other cost:** Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example design cost which is incurred for the specific customer order.

Exclusions from the Cost of Inventories:

In determining the cost of inventories excludes the following costs:

(a) Abnormal amounts of wasted materials, labour, or other production costs;

(b) Storage costs, unless those costs are necessary in the production process prior to a further production stage;
(c) Administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
(d) Selling and distribution costs.

Cost Formulas/ Methods of Inventory Valuation:

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs. All other should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.

Techniques for the Measurement of Cost:

For convenience, techniques for calculating inventory costs, such as the standard cost method or the retail method, can be employed if the results are close to the real cost. Standard costs account for normal levels of material and supply consumption, labour, efficiency, and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method is often used in the retail trade for measuring inventories of large numbers of rapidly changing items that have similar margins and for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing from the sales value of the inventory the appropriate percentage gross margin. The percentage used takes into consideration inventory which has been marked down to below its original selling price. An average percentage for each retail department is often used.

Net Realisable Value (NRV):

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. An assessment is made of net realisable value of inventory as at each balance sheet date.

Inventories are usually written down to net realisable value on an item by-item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating

to the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular business segment. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made as to the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the balance sheet date to the extent that such events confirm the conditions existing at the balance sheet date. Estimates of net realisable value also take into consideration the purpose for which the inventory is held.

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

Stop to Consider

Inventories generally constitute the second largest item after fixed assets in the financial statement. Accounting Standard-2 deals with the valuation of inventories. As per this standard Inventories should be valued at lower of cost and net realisable value. Cost of inventories includes all costs of purchase, Costs of conversion, other costs incurred in bringing the inventories to their present location and condition.

2.4.2 Valuation of Intangible Assets

AS 26 is applied for accounting of Intangible Assets. As per this standard 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 per this accounting standard an intangible asset should be recognised if, and only if:

a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and
b) the cost of the asset can be measured reliably.

An enterprise should assess the probability of future economic benefits using reasonable and supportable assumptions that represent best estimate of the set of economic conditions that will exist over the useful life of the asset.

Initially an intangible asset should be measured at cost. After initial recognisation, an intangible asset should carried at its cost less any accumulated impairment losses. 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. Amortisation should commence when the asset is available for use. If control over the future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, the useful life of the intangible asset should not exceed the period of the legal rights unless:

i. the legal rights are renewable; and
ii. renewal is virtually certain.

If any Subsequent expenditure on an intangible asset after its purchase or its completion should be added to the cost of the intangible assets 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.

Measurement of Cost of an intangible asset in different situation:

Separate Acquisition: If an intangible asset is acquired separately, the cost of the intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

The cost of an intangible asset comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use. Directly attributable expenditure includes, for example, professional fees for legal services. Any trade discounts and rebates are deducted in arriving at the cost.

If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise, the asset is recorded at its fair value, or the fair value of the securities issued, whichever is more clearly evident.

Acquisition as Part of an Amalgamation: If an asset is acquired in a business combination, the cost of that asset should be its fair value at the acquisition date which depends on market expectations.

Acquisition of Intangible Assets by way of a Government Grant: When an intangible asset acquired free of charge, or for nominal consideration, by way of government grant is recognised at a nominal value or at the acquisition cost, as appropriate; any expenditure that is directly attributable to making the asset ready for its intended use is also included in the cost of the asset.

Exchanges of Assets: An intangible asset may be acquired in exchange or part exchange for another asset. In such a case, the cost of the asset acquired is determined in accordance with the principles laid down in this regard in AS 10, Accounting for Fixed Assets.

Internally generated intangible assets: The cost of an internally generated intangible asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use. The cost includes, if applicable:

a) expenditure on materials and services used or consumed in generating the intangible asset,
b) the salaries, wages and other employment related costs of personnel directly engaged in generating the asset;
c) Any expenditure that is directly attributable to generating the asset, such as fees to register a legal right and the amortisation of patents and licences that are used to generate the asset; and
d) Over heads that are necessary to generate the asset and that can be allocated on a reasonable and consistent basis to the asset (for example, an allocation of the depreciation of fixed assets, insurance premium and rent). Allocations of over heads are made on bases similar to those used in allocating over heads to inventories (see AS 2, Valuation of Inventories). AS 16, Borrowing Costs, establishes criteria for the recognition of interest as a component of the cost of a qualifying asset. These criteria are also applied for the recognition of interest as a component of the cost of an internally generated intangible asset.

The following are not components of the cost of an internally generated intangible asset:

- selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to making the asset ready for use;
- clearly identified inefficiencies and initial operating losses incurred before an asset achieves planned performance; and
- expenditure on training the staff to operate the asset.

Example of valuation of some Intangible Assets discussed below:

Valuation of Goodwill: As per this accounting standard (AS-26) only purchase goodwill will be recorded in the books of accounts when goodwill is purchase by the firm in a consideration in cash or kinds. Self generated goodwill is not recorded in the books of account of a firm. Initially goodwill is measured on its cost price. After initial valuation it should be valued at its cost less written off amount of goodwill from its actual or opening value or price. Goodwill arising on amalgamation should be to amortised over a period not exceeding five years unless a somewhat longer period can be justified (AS-14).

Valuation of Patents: Patents should be measured initially at its cost. The cost includes its purchase price and registration cost. If the institution is the one that develops or manufactures the patents, all development costs, registration fees, and other direct costs should be capitalised. Its cost should be written off throughout the period of its legal existence.

Valuation of Trademarks: It is measured and shown balance sheet at cost price less written off value. If it is purchased, the cost price includes the purchase price plus registration fees and if it is developed or designed in the organization, the cost includes all the costs related to its development and design. The cost of trademark should be written off within its legal period or during its useful life, whichever is less.

Stop to Consider

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 per Accounting Standard-26 initially an intangible asset should be

measured at cost. After initial recognisation, an intangible asset should be carried at its cost less any accumulated impairment losses. Examples of intangible assets- goodwill, trademark, etc.

Self generated goodwill is not recorded in the books of account of a firm. Only purchase goodwill will be recorded in the books of accounts when goodwill is purchase by the firm in a consideration in cash or kinds (AS-26).

2.4.3 Valuation of Plant, Property and equipment: (Accounting standard-10)

Accounting Standard 10 should be applied in accounting for property, plant and equipment except when another Accounting Standard requires or permits a different accounting treatment.

In following cases this standard does not apply

- Biological assets related to agricultural activity other than bearer plants. This Standard applies to bearer plants but it does not apply to the produce on bearer plants; and
- Wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

As per accounting standard 10 Property, plant and equipment are tangible items that:

a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
b) are expected to be used during more than a period of twelve months.

An item of property, plant and equipment that qualifies for recognition as an asset should be measured at its cost.

The cost of an item of property, plant and equipment comprises:

1. its purchase price, including import duties and non –refundable purchase taxes, after deducting trade discounts and rebates.
2. any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as decommissioning, restoration and similar liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

After initial measurement of property, plant and equipment an enterprise can choose the revaluation model or the cost model as the accounting policy and employ the same to the entire class of its properties, plant and equipment.

Cost Model

After recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.

2.4.4 Investment

AS 13 deals with accounting for investments in the financial statements of enterprises and related disclosure requirements except the followings:

a) the bases for recognition of interest, dividends and rentals earned on investments which are covered by Accounting Standard 9 on Revenue Recognition;

b) operating or finance leases;

c) Investments of retirement benefit plans and life insurance enterprises; and

d) Mutual funds and venture capital funds and/or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 2013.

Definition of Investment as per AS-13 "Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise. Assets held as stock-in-trade are not 'investments'."

Classification of Investments:

1. **Current Investment-** A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.

2. **Long Term Investment:** A long term investment is an investment other than a current investment.

Valuation of Investment: Investments classified as current investments should be carried in the financial statements at the lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

Cost of Investment: The cost of an investment should include acquisition charges such as brokerage, fees and duties. If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost should be the fair value of the securities issued (which in appropriate cases may be indicated by the issue price as determined by statutory authorities). The fair value may not necessarily be equal to the nominal or par value of the securities issued. If an investment is acquired in exchange for another asset, the acquisition cost of the investment should be determined by reference to the fair value of the asset given up. Alternatively, the acquisition cost of

the investment may be determined with reference to the fair value of the investment acquired if it is more clearly evident.

As per AS-13 Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.

Check Your Progress

1. Definition of inventories as per AS-2.
2. What is an intangible asset?
3. Describe valuation of inventories as per Accounting standard.
4. Give examples of Intangible assets and explain their valuation process as per Accounting standard.
5. Discuss the valuation of Investment as per AS.

2.5 Provisions, Contingent Liabilities and Contingent Assets

Definition as Per AS-29

1. A provision is a liability which can be measured only by using a substantial degree of estimation.
2. A contingent liability is:
   - ***a.*** a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise; or
   - ***b.*** a present obligation that arises from past events but is not recognised because:
     - **i)** it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
     - **ii)** a reliable estimate of the amount of the obligation cannot be made.
3. A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise.

Measurement as per AS 29:

The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value. (Ind AS 37 requires discounting the amounts of provision, if the effect of time value of money is material.)

The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

Re-measurement of Provision:

Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

Valuation of Current Liabilities: Current liabilities are those liabilities which are payable within a period of one year. Current liabilities include such as trade creditors, bills payables, short term loan, etc. These liabilities are valued at their actual cost. Lliabilities are originally measured and recorded according to the cost principle. That is, when incurred, the liability is measured and recorded at the current market value of the asset or service received. Current liabilities are measured or recorded at their face value since they are due in a relatively short period of time.

2.6 Summing Up

- Accounting standard are the written form of statements which consists of rules, principles and guidelines to be used consistently and uniformly for the preparation and presentation of financial statements by a business entity.

- Inventories should be valued at lower cost and net realizable value. Accounting Standard 2 deals with the determination of value at which inventories are carried in the financial statements.
- Valuation of intangible assets are done as per of Accounting standard 26.
- An enterprise can choose the revaluation model or the cost model as the accounting policy and employ the same to the entire class of its properties and Plant and Equipment for measurement.
- Accounting Standard 13 deals with accounting of investment. Investments classified as current investments should be carried in the financial statements at the lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis. Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.
- The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate.
- Current liabilities are valued at their actual cost

2.7 Model Questions

Short Questions:

1. Define valuation of assets and liabilities.
2. What is accounting standard?
3. What is an intangible asset as per AS-26?
4. Define Inventories as per AS-2.
5. What is the meaning of Contingent Liabilities and contingent assets?
6. How valuation of investment is carried out?

Long Questions:

1. Explain the steps of valuation of Inventories as per AS-2.
2. Explain the relevant accounting standards in valuation of Different Assets.

3. Discuss the Accounting standard -26 in valuation of Intangible Assets.
4. Define plant, property and Equipment and explain how it is measured and recognised in the financial statement of a company as per Accounting Standard- 10.

2.8 References and Suggested Readings

Books:

- Gupta, S.K., & Sharma R.K. "*Management Accounting-Principles and Practice."* Kalyani Publisher-2013.
- Dam B.B., Gautum H.C., Chakraborty D., and Barman J.K., "*Financial Accounting."* Guwahati: Gayatri Publications, September 2019.
- Sikider Sujit and Gautum H.C. *"Financial Statement Analysis."* Kolkata: New Central Book Agency(p) Ltd, April 2002.
- Sarda R.A., Goswami J., Kalita B.C. and Chakrabarty, D., "*Financial Accounting-I".* BLJ publications-2011.

Websites:

- https://www.mca.gov.in/content/mca/global/en/acts-rules/ebooks/accounting-standards.html
- https://cleartax.in/s/accounting-standards
- https://www.mca.gov.in/Ministry/notification/pdf/AS_26.pdf
- https://cleartax.in/s/as-2-inventoriesvaluation

******