

* Valuation of share.

a. Assets backing Method / Net assets Method.

Rule

Calculation of Net assets available to Eq. sh. holder

| Particulars | Rs. |
|--|-----|
| Sundry Assets (including Goodwill & Non-trading Assets but excluding fictitious assets like profit & loss A/c (Dr.), Preliminary Exp. Promotional Exp. of business, Discount on issue of shares, loss on issue of debenture) | * |
| Less: Liabilities: | |
| A. outsider liability | * |
| B. Contingent liabilities (अपेक्षित देय) | * |
| Net assets / Net Worth. | * |
| Less: Preference share holder (Capital, Premium, redemption, arrear preference share dividend) | * |
| Add: Notional call (on partially paid up shares) | * |
| Net assets available to Eq. sh. holder. | ** |

* Intrinsic Value of each fully paid up share = $\frac{\text{Net assets available to Eq. Sh. holder}}{\text{Number of Eq. shares.}}$

* Intrinsic Value of each partly paid up shares = $\frac{\text{Intrinsic value of each fully paid up shares} - \text{Nominal value per share.}}$

6. Yield Method

i) Yield Method (Rate of return)

| | |
|--|---|
| Average Annual Profit (After tax) | * |
| less: Transfer to General Reserve (205(2A)) | * |
| | <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> |
| less: Preference share dividend for current year | * |
| | <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> |
| Profit available to Eq. Sh. holder. | * |
| | <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> |

Expected rate of return = $\frac{\text{Profit available to Eq. Sh. holder} \times 100}{\text{Paid up value of Eq. Sh. Capital}}$

So, Yield value or Market value per share = $\frac{\text{Expected rate of return}}{\text{Normal rate of return}} \times \text{Paid up value of each Eq. share.}$

ii) Yield Method (Capitalization of profit)

a. If there are fully paid up only

$$\text{Value per share} = \frac{\text{Capital value of profit for Eq. M. holder}}{\text{Number of Eq. share}}$$

b. If there are partly paid up only

$$\text{Market value per share Rs. 1} = \frac{\text{Capitalised value of Profit available to Eq. M. holder}}{\text{Paid up Eq. M. Capital}}$$

$$\text{Market value per share} = \text{Value per Rs. 1} \times \text{Paid up value of each share.}$$

$$\text{Mean Method / fair value} = \frac{\text{Intrinsic value} + \text{Yield value}}{2}$$

$$\text{Expected rate of return} = \frac{\text{Profit available to Eq. M. holder} \times 100}{\text{Paid up value of Eq. M. Capital}}$$

$$\text{Yield value or Market value per share} = \frac{\text{Expected rate of return}}{\text{Market rate}}$$

VALUATION OF SHARES

ASSET BACKING METHOD

32. The following is the summarised balance sheet of a company :

Balance Sheet

| <i>Equity and liabilities</i> | | ₹ |
|-----------------------------------|--|------------------|
| 4,000 equity shares of ₹ 100 each | | 4,00,000 |
| Reserves and surplus | | 1,00,000 |
| 10% debentures | | 1,00,000 |
| Miscellaneous liabilities | | 4,20,000 |
| | | <u>10,20,000</u> |
| <i>Assets</i> | | ₹ |
| Sundry assets | | 10,00,000 |
| Unamortised preliminary expenses | | 20,000 |
| | | <u>10,20,000</u> |

Sundry assets are expected to realise ₹ 11,00,000.

Ascertain the value of shares as per net assets method.

33. Gem Ltd. submits the following information as on 31st March, 2015 :

| | ₹ |
|-----------------------------|-----------|
| (i) Fixed assets (tangible) | 15,00,000 |
| (ii) Current assets | 6,00,000 |
| (iii) Patent rights | 2,50,000 |
| (iv) Investments | 1,00,000 |
| (v) Capital issue expenses | 50,000 |
| (vi) Liabilities | 4,00,000 |

Capital comprises of 12,500 shares of ₹ 100 each fully paid. It is ascertained that patent rights are valueless. Ascertain the value of shares on asset backing method.

34. Shyam & Co. Ltd. presents the following condensed balance sheet on 31st March, 2015 :

| <i>Equity and liabilities</i> | | ₹ |
|-------------------------------|--|-----------------|
| Share capital (₹ 10 each) | | 3,00,000 |
| Reserves and surplus | | 1,20,000 |
| Long-term borrowings | | 50,000 |
| Current liabilities | | 10,000 |
| | | <u>4,80,000</u> |
| <i>Assets</i> | | |
| Fixed assets | | 4,50,000 |
| Current assets | | 30,000 |
| | | <u>4,80,000</u> |

It is observed that fixed assets are undervalued ₹ 30,000. The current assets are overvalued by ₹ 2,000. The assets are to be valued properly.

It is proposed to issue fully paid shares by capitalisation of general reserves in the ratio of one share for every three shares held.

Find the value of shares : (a) Before issue of bonus shares ; and (b) After issue of bonus shares.

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Calculation of net assets available to Eq. Sh. holder

| Particulars | Rs. |
|---|----------|
| Sundry Assets | 1100,000 |
| less: Sundry Liabilities | |
| A. Outsider Liabilities | |
| 10% debenture | 100,000 |
| Miscellaneous Liabilities | 420,000 |
| | 520,000 |
| Net assets / Net Worth. | 580,000 |
| Net assets available to Eq. Sh. holder. | |

Intrinsic value of each fully paid up share = $\frac{\text{Net assets available to Eq. Sh. holder}}{\text{Number of Eq. Shares}}$

$= \frac{580,000}{4000} = 145$

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Calculation of net assets available to Eq. Sh. holder.

| Particulars | Rs. |
|---|----------|
| Sundry Assets: | |
| Fixed Assets | 1500,000 |
| Current Assets | 600,000 |
| Investment | 100,000 |
| | 2200,000 |
| less: Liabilities | 400,000 |
| Net assets / Net Worth. | 1800,000 |
| Net assets available to Eq. Sh. holder. | |

Intrinsic Value of each fully paid up share =

$$\frac{\text{Net assets available to Eq. holder}}{\text{Number of Eq. Shares.}}$$

=
$$\frac{1800,000}{12500} = 144.$$

34 Workings

Calculation of assets available to Eq. holder.

| Particulars | | Rs. |
|---------------------------------|--------|----------------|
| <u>Sundry Assets</u> | | |
| <u>Fixed Assets</u> | | |
| 450,000 | | |
| Add: Undervalued | 30,000 | |
| <u>480,000</u> | | |
| <u>Current Assets</u> | | |
| 30,000 | | |
| Less: Overvalued | 20,000 | |
| <u>280,000</u> | | |
| <u>508,000</u> | | |
| Less: <u>Sundry liabilities</u> | | |
| Long term borrowings | 50,000 | |
| Current liabilities | 40,000 | |
| <u>60,000</u> | | |
| <u>448,000</u> | | |
| Assets available to Eq. holder. | | <u>448,000</u> |

Intrinsic value of each fully paid up share =

$$\frac{\text{Assets available to Eq. holder}}{\text{Number of Eq. Shares.}}$$

$$\frac{448,000}{30,000} = 14.93$$

39. From the following information, calculate the value per equity share :

2,000 9% preference shares of ₹ 100 each

50,000 equity shares of ₹ 10 each, ₹ 8 per share paid up

Expected profit per year before tax

Rate of tax

Transfer to general reserve every year 20% of the profit

Normal earning rate

₹ 2,00,000

₹ 4,00,000

₹ 2,18,000

50%

15%

[ICSI, Inter.]

40. Calculate the value of each equity share from the following information :

(i) 60,000 equity shares of ₹ 10 each, ₹ 7 paid up.

(ii) ₹ 2,00,000 10% preference shares of ₹ 100 each fully paid up.

(iii) Expected annual profits before tax ₹ 4,00,000.

(iv) Tax rate 35%.

(v) Transfer to general reserve 20%.

(vi) Normal rate of return 20%.

[C.U., B.Com. (Hons.) '10]

41. From the following figures, calculate the value of a fully paid equity share of ₹ 10 on (a) Dividend basis ; and (b) Return on capital employed basis, assuming in each case the market expectation to be 12%.

| Year ended | Capital employed | Profit earned | Dividend |
|------------|------------------|---------------|----------|
| | ₹ | ₹ | |
| 2011-12 | 50 crore | 8 crore | 12% |
| 2012-13 | 80 " | 16 " | 15% |
| 2013-14 | 100 " | 22 " | 18% |
| 2014-15 | 120 " | 30 " | 20% |

[ICSI, Inter. (June) '02 – Adapted]

42. Prema Ltd.'s capital is ₹ 11,00,000 dividend in shares of ₹ 10 each. Of these, 40,000 shares are 8% preference and remaining are equity shares. The average profit (after tax @ 50%) earned during past 3 years is ₹ 1,50,000. In future, expenses will increase by ₹ 12,000 per annum. The expected yield for risk capital is 10% net of tax.

Find the value of equity shares.

43. On 31st March, 2015 the balance sheet of a joint stock company disclosed the following position :

| Equity and liabilities | Note No. | |
|---------------------------|----------|-----------------|
| Shareholders' funds : | | |
| Share capital | 1 | 4,00,000 |
| Reserves and surplus | 2 | 1,10,000 |
| Non-current liabilities : | | |
| Long-term borrowings | 3 | 1,00,000 |
| Current liabilities | | 1,30,000 |
| | | <u>7,40,000</u> |