

UCCC&SPBCBA&SDHGCBCA&IT,UDHNA

SYBCOM SEM-IV

Advanced Accounting & Auditing-IV

(ACCOUNTANCY & TAXATION)

CH-1 VALUATION OF SHARE (25%)

CONTENTS:

- Need for valuation of share,
- Factors affecting value of share,
- Methods of valuation of share

Note: Amount of Goodwill shall be given in the problem.

• **Definition:**

In finance, valuation is a process of determining the fair market value of an asset. Equity valuation therefore refers to the process of determining the fair market value of equity securities.

• **Factors affecting valuation of shares:**

I. INTERNAL FACTORS:

- Financial Position
- Goodwill
- Size of Business.
- Earning capacity.
- Capital Employed.

II. EXTERNAL FACTORS

- Nature of business
- Economic policies of the Government.

- Political Condition
- Rate of dividend paid by other company.
- Yield of other related shares in the Stock Exchange, etc.
- **Need for Valuation of Shares:**

The need for valuation of shares may be felt by any company in the following circumstances:

- When unquoted shares are bought and sold
- For assessment of Gift Tax.
- Internal Reconstruction viz. Amalgamations, absorptions, etc.
- For converting one class of shares to another class.
- Advancing loans on the security.
- Compensating the shareholders on acquisition of shares by the Government under a scheme of nationalisation.
- Acquisition of interest of dissenting shareholder under the reconstruction scheme, etc.
- **Methods of Valuation of Shares:**

I. NET ASSET VALUATION METHOD/INTRINSIC VALUE METHOD:

Value of Share = $\frac{\text{Net Assets}}{\text{Number of Shares}}$

Where,

- Net Assets = Total Assets - Total liabilities
- Here Total Assets means all assets (except fictitious assets & Goodwill given in balance sheet) (new value of goodwill is to be considered)

- Total liabilities includes all long term liabilities, Preference capital ,preference dividend as well as short term liabilities excluding owners fund

Note: when two or more series of shares are issued and out of which some shares are partly paid, then:

- **Step 1:** add uncalled amount of share capital to net assets
- **Step 2 :** divide net assets by number of shares
- **Step 3 :** deduct uncalled amount per share from the intrinsic value of share **to find intrinsic value of partly paid up shares.**

II. YIELD METHOD/MARKET VALUE METHOD:

Value of Share= $\frac{\text{Percentage of Dividend} * \text{paid up amount per share}}{\text{Expected Rate of Return}}$

Where,

Rate of Dividend= $\frac{\text{Profit Available for Equity Dividend} * 100}{\text{Equity share capital}}$

Calculation of Profit available for dividend:

- Calculate Average profit for last 3 to 5 normal years.
- Deduct Nonrecurring Items
- Deduct Income tax
- Allocate reserves
- Provide dividend on preference shares

III. FAIR VALUE: = Intrinsic Value + Market Value

• **Exercise:**

Q1) From the following details, find out Intrinsic Value of Shares, Market Value & Fair Value of Shares:

Expected rate of return-12%

Net assets Rs.804000

5000 Equity shares of Rs.100 each fully paid

There is no preference share capital

Average profit is Rs. 96480.

Q2) The value of shares of Rs.100 of B Co. is Rs.200. From the following information, calculate number of equity shares.

Assets Rs.1560000 (including 10% investment of Rs.60000),

Liabilities Rs.96000.

Profit before taxation Rs.276000 (including interest on investment).

Expected rate of return 10%.

Q3) Total Assets (including miscellaneous expenditure and losses unwritten off Rs.200000) are Rs. 1200000 of Sunrise ltd. 15% preference share 20000 each of Rs.10 fully paid; Equity shares 10000 each of Rs.10 fully paid. Expected rate of return is 10%; Liabilities are Rs.400000. Find out the intrinsic value of equity share.

Q4) Calculate from the following information, the fair value of equity shares of Rs.100 each, on which Rs.80 is paid up:

1. Paid up equity capital Rs. 400000
2. Net assets (market value) Rs. 480000
3. Average annual profit after provision of tax Rs.64000
4. Estimated rate of return 10%

Q5) From the following information, find out market value of equity shares:

1. Total Assets (including 10% non-trading investment) Rs.3860000
2. Total liabilities Rs.1260000
3. Profit before 50% tax (including interest on non-trading investment)
Rs.1640000
4. Equity shares of Rs.100 each, Rs. 80 per share paid up Rs.1600000
5. The intrinsic value of fully paid equity shares Rs.100
6. 10% preference share capital of Rs.100 each ??
7. Rate of return on equity share capital is 20%

Q6) Balance sheet of Devyani as on 31/12/2024

Particulars	Amount	Amount
Equity & Debt		
Share Capital:		
10% Preference share capital	600000	
150000 Equity shares of Rs.10 each	1500000	
Reserve & Surplus:		
General Reserve	268500	2368500
Current Liability:		
Creditors	1200000	1200000
Total		3568500
Non-Current assets:		
Tangible Assets:		
Land & Building	1093500	
Machinery	300000	
Furniture	75000	1468500
Non-Current Investment		300000
Current assets:		
Inventories	1100000	
Accounts Receivable	500000	
Cash & its equivalent	200000	1800000
Total		3568500

Additional Information:

1. Consider market price for land & building for valuation of shares. It was purchased on 1/1/18. Calculate 10% depreciation on WDV Method. Its original price is 485000 less than its market price.
2. Expected rate of return 15%
3. After deduction of 50% tax the average profit of last 3years is Rs.645000
4. Goodwill valued at Rs. 846000.Stock is valued at 10% less
5. Investment includes 60% non trading investment and the remaining is trading. The price of all trading investment is 25% more than its book value. The rate of dividend on all investment is 15%, which is taxable.

Find Intrinsic value of shares.

Q7) Mira ltd. Share capital is as under: (VNSGU APRIL 2019)

7800 A Equity shares of Rs.100 each, fully paid up	780000
6800 B Equity shares of Rs.100 each, Rs.80 paid up per share	544000
6400 C Equity shares of Rs.100 each, Rs.50 paid up per share	<u>320000</u>
Total paid up capital	1644000
Add: General Reserve	210000
Add: Creditors	<u>146000</u>
	<u>20,00,000</u>

The average estimated profit of the company after tax is Rs.180500. In such type of business, the expected rate of return is 12%.

From the above details, find out the value of share:

1. As per Net Asset Method
2. As per Yield Method

Q8) The following particulars of Amber Ltd. as on 31st March, 2024 are available:

1. 1,00,000 Equity Shares of 100 each fully paid	1,00,00,000
2. 10,000, 12% Preference shares of 100 each fully paid	10,00,000
3. Securities Premium	11,50,000
4. Profit and Loss Account	33,58,000
5. General Reserve	18,85,000
6. Current liabilities:	
Creditors	31,20,000
Bills Payable	10,60,000
7. Average Profit after Tax (for last three years)	5,85,000
8. 20% of profit after tax is transferred to General Reserve every year	
9. Fictitious Assets	80,000
10. Normal Rate of Return is 10%	

Considering the above information, compute the value of equity share by:

1. Assets Backing method
2. Yield method
3. Fair Value

Q9) From the following Balance Sheet of Sweetex Ltd. you are asked to-ascertain the value of each Equity Share of the company:

Particulars	Amt (Rs)	Amt (Rs)
I Equity and Liabilities		
20000, Eq.Sh.of Rs.10each		200000
1000,6% Preference Shares of Rs.100 each		100000
General Reserve		60000
Prov. For tax		20000
Other Liabilities		10000
Creditors		40000
Total		430000
II – Assets		
Goodwill		30000
land & building		100000
plant & machinery		120000
Investment		60000
Other Non current assets		6000
Stock		50000
Debtors		40000
Cash at bank		24000
Total		430000

For the purpose of valuing the shares of the company, the assets were revalued as: Goodwill Rs. 50,000; Land and building at cost plus 50%, Plant and Machinery Rs. 1,00,000; Investments at book values; Stock Rs. 80,000 and Debtors at book value, less 10%.

Q10) From the following information of J. Adams Co. Ltd. compute the Market value of its equity share:

Particulars	Amt(Rs)	Amt(Rs)
I Equity and Liabilities		
Equity Shares of Rs.10each		500000
General Reserve		150000
10% Debentures		300000
Creditors		250000
Total		1200000
II – Assets		
Fixed Assets		600000

Non-Current Assets		25000			
Current Assets		575000			
Total		1200000			
	31/12/19	31/12/20	31/12/21	31/12/22	31/12/23
Sales	900000	1100000	1400000	800000	1600000
Expenses	350000	580000	600000	310000	800000
Interest on loan	20000	40000	50000	60000	20000
Interest on debenture	30000	30000	30000	30000	30000

It is the usual practice of the company to transfer Rs. 30,000 every year to General Reserve. Assume rate of Taxation is at 50% and the rate of normal earnings at 12.5%.

Q11) The following is the Balance Sheet of X Co. Ltd. as on 31.12.2025

Particulars	Amt(Rs)	Amt(Rs)
I Equity and Liabilities		
Eq.Sh.of Rs.10each	100000	
12% Pref.Shares of Rs.100 each	100000	200000
General Reserve		60000
15% Debentures		100000
Creditors		80000
Total		480000
II – Assets		
Goodwill		50000
Building		150000
Plant		100000
Investment (Market value of Rs.52000, Nominal Value of Rs.50000)		48000
Other noncurrent assets		22000
Stock		60000
Debtors		40000
Cash		10000
Total		480000

Ascertain the value of each equity share under Fair Value Method on the basis of the information given:

Assets are revalued as:

Building Rs. 3,20,000, Plant Rs. 1,80,000, Stock Rs. 45,000 and Debtors Rs. 36,000. Average Profit of the company is Rs. 1, 20,000 and 12½% of profit is transferred to General Reserve, Rate of taxation being 50%. Normal dividend expected on equity shares is 8% whereas fair return on capital employed is 10%. Goodwill Rs.16000.

Q12) Find out intrinsic value of a share from the following information: **(APRIL 2023)**

- (1) Fair value of share ` 125
- (2) Expected rate of return 10%
- (3) Average rate of dividend 14%
- (4) Face value of equity share ` 100
- (5) Paid up value of equity share ` 80

Q13) Following is the Balance Sheet of Pathan Ltd. as on 31-12-2022(APRIL2023)

Particulars	₹
I. Equity and Liabilities	
(A) Shareholders' funds	
Share Capital (₹ 100)	10,00,000
General Reserve	2,50,000
P and L A/c	2,50,000
(B) Current Liabilities	
Creditors	5,00,000
	20,00,000
II. Assets	
(A) Non-current Assets	
Land and Building	4,00,000

Machinery	4,50,000
Motor Car	25,000
Furniture	25,000
20% Investments	50,000
Preliminary Expenses	20,000
) Current Assets	
Stock	7,25,000
Debtors	2,00,000
Bank balance	1,05,000
	20,00,000

Other information:

(1) Land Building and Machinery are to be valued at ` 6,00,000 and 5,20,000 respectively.

(2) All investments are to be valued at 60% above cost.

(3) Profit after 50% tax are as follows:

2019	3,05,000	2021	4,24,000
2020	3,84,000	2022	5,04,000

(4) In similar business, expected rate of return on capital employed is 20%.

(5) In 2020 machinery (book value ` 20,000) was sold for 20,000, but the proceeds were wrongly credited to profit and loss A/c. This mistake has not yet been rectified. Depreciation has been charged at 10% per annum on straight line method.

(6) Consider 2,70,000 as value of Goodwill.

Find out the fair value of equity shares.

Q14) Find out the Intrinsic value of a share from the following information: (APRIL 2024)

- (1) Equity shares of RS. 100 each, RS.70 paid up
- (2) Average rate of dividend 12%
- (3) Expected rate of return 8%
- (4) Fair value of share RS. 110

Q15) Find out expected rate of return from the following information (APRIL 2024)

- (1) Market Value of share is RS.18.75
- (2) Dividend per share is RS. 2.25
- (3) Face Value of share is RS. 10
- (4) Paid up value per share is RS.9

Q16) APRIL 2024

Balance Sheet of Godse Ltd as on 31st March, 2023 is as under:

Particulars	RS.
I. Equity & Liabilities	
(A) Shareholders' funds	
(i) Share Capital	
Equity shares of RS. 100 each, RS. 80 paid	1,00,000
10% Preference shares of RS. 100 each	1,00,000
(ii) Reserves and Surplus	1,00,000
(B) Current Liabilities	1,00,000
	4,00,000
II. Assets	
(A) Non-current Assets	
Fixed Assets	2,00,000
Preliminary Expenses	1,00,000
(B) Current Assets	1,00,000
	4,00,000

Fixed assets including Goodwill were valued at RS 5,10,000. There was an unrecorded liability of RS 10,000. 30% of current liabilities represent the provision for tax of current year which is 40% of profit of current year. Expected rate of return is 10%. Ascertain Fair value of equity share of a company.

Q17) VNSGU APRIL 2025

From the information given below, evaluate the shares as per Net Assets basis. Fair Value of shares Rs. 125 Expected rate of return 10% Average rate of dividend 14% Face value of Equity shares Rs. 100 Paid up value of Equity shares Rs. 80

Q18) VNSGU 2025

The intrinsic value of equity shares of a company of Rs. 100 is Rs. 250. Find the market value of the equity shares from the following information. Average profit before tax of 50% Rs. 70,000 Net assets Rs. 2,50,000 Expected rate of return 15% Equity share capital is twice of the 10% preference share capital

Q19) VNSGU APRIL 2025

Balance sheet as on 31-12-2024 was as follows of Vijay Ltd.

