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Chapter - Valuation of Shares

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chapter = 12

## VALUATION OF SHARES

Methods of valuation of shares.

- 1.) Assets Valuation Method
- 2.) Yield Valuation Method
- 3.) Fair Valuation Method.

1.) Assets Valuation Method.

Net Assets = Realised value of Real Assets - External Liab

$$\text{Value per share} = \frac{\text{Net Assets}}{\text{No. of equity shares}}$$

Realised Assets = Total Real Assets - Misc. exp - Outside Liab

If company issue equity share but there paid up value is differ.

$$\text{Unit value of share} = \frac{\text{Net Assets}}{\text{Paid up value of equity share}}$$

### Ill 1 - Calculation of Net Assets -

	₹
Building	100000
Plant	190000
Goodwill	60000
Stock	100000
Debtors	160000
Bank	100000
Cash	<u>210000</u>
Gross Real Assets	920000

#### (-) External liabilities

	₹
Creditors	80000
Provision for tax	50000
Loans	<u>300000</u>
	430000
Net Assets	<u>490000</u>

value per share =  $\frac{\text{Net Assets}}{\text{No. of shares}}$

$$= \frac{₹ 490000}{20000} = ₹ 24.50.$$

### Ill 2 - valuation of Goodwill.

$$\text{Average profit} = \frac{₹ 55000 + ₹ 80000 + ₹ 75000 + ₹ 60000 + ₹ 100000}{5}$$

$$= \frac{₹ 370000}{5} = ₹ 74000.$$

$$\text{Goodwill} = \text{Average profit} \times \text{No. of years purchase} \\ = ₹ 74000 \times 2 = ₹ 148000.$$

#### valuation of shares.

Goodwill	₹
Building	148000
Machinery	360000
Investment	250000
	85000

Current Assets		75000
Debtors		45000
Gross Real Assets		963000
(-) External Liabilities		
Unsecured loan	100000	
CL	50000	150000
Net Assets		813000

$$\text{Value per share} = \frac{\text{Net Assets}}{\text{No. of equity share.}}$$

$$= \frac{\text{₹ } 813000}{30000} = \text{₹ } 27.10.$$

### Ill 3 - Calculation of Average Capital Employed

Plant and Machinery		370000
Building		180000
Furniture		110000
Stock		180000
Sundry Debtors		120000
Cash at Bank		50000
	Net Real Assets except Goodwill,	1010000
(-) 9% Debentures	120000	
Sundry Creditors	35000	
Provision for Taxation	40000	195000
Capital Employed		815000
(-) Half of CY Profit [100000 x 1/2]		50000
Average Capital Employed		765000

### Valuation of Goodwill

$$\text{Total Profit} = \text{₹ } 80000 + \text{₹ } 95000 + \text{₹ } 90000 + \text{₹ } 95000$$

$$+ \text{₹ } 100000 = \text{₹ } 460000$$

$$\text{Average Profit} = \frac{\text{₹ } 460000}{5} = \text{₹ } 92000$$

$$\text{Normal Profit} = \text{Capital Employed} \times \text{NRR}$$

$$= ₹ 765000 \times 10\% = ₹ 76500$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$

$$= ₹ 92000 - ₹ 76500 = ₹ 15500$$

$$\text{Goodwill} = \text{Super Profit} \times \text{No. of year Purchase}$$

$$= ₹ 15500 \times 3 = ₹ 46500$$

### Valuation of Shares.

#### calculation of Net Assets:-

	₹
Goodwill	46500
Buildings	180000
Plant & Machinery	370000
Furniture	110000
Stock	180000
Sundry Debtors	120000
Cash at Bank	50000
	10,56,500

#### (-) External Liabilities

	₹
9% Debentures	120000
Sundry Creditors	35000
Provision for Tax	40000
	195000
Net Assets	8,61,500

$$\text{Value Per Share} = \frac{\text{Net Assets}}{\text{No. of Shares}}$$

$$= \frac{₹ 8,61,500}{50000}$$

$$= ₹ 17.23$$

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## Valuation of Goodwill.

1.) Calculation of Average Capital Employed.

Building	₹ 200000
Machinery	250000
Stock	300000
Sundry Debtors [160000-10000]	150000
Bank	60000
<b>Gross Asset</b>	<b>960000</b>

(-) Liabilities

Bank Overdraft	10000	
Creditors	60000	
Provision for Taxation	110000	180000
<b>Net Capital Employed</b>		<b>780000</b>

(-) 1/2 Profit [₹ 220000 x 1/2]	55000
<b>Average Capital Employed</b>	<b>725000</b>

2.) Calculation of Super Profit

Profit for 3 years [200000 + 240000 + 220000]	₹ 660000
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(-) Bad debts	10000
	650000
Average Profit = ₹ 650000 ÷ 3	216667

(-) Depreciation

Building 2% on ₹ 50000	1000	
Machinery 10% on ₹ 30000	3000	4000
		212667

(-) Income Tax at 5%	106333
<b>Average Profit</b>	<b>106334</b>

(-) Normal Profit [₹ 725000 x 10%]	72500
<b>Super Profit</b>	<b>33834</b>

$$\begin{aligned} \text{Value of Goodwill} &= \text{Super Profit} \times \text{No. of Year Purch.} \\ &= ₹ 33834 \times 3 = ₹ 101502 \end{aligned}$$

Valuation of Share	₹ 780000
Value of Tangible Assets	101502
Goodwill	881502
(-) Proposed dividend	60000
Ex-Dividend Intrinsic Value	821502
Ex-dividend value per share =	$\frac{₹ 821502}{6000} = ₹ 136917$

IV51- Statement of Capital employed as on 31 March 2015

Machinery [ $₹ 60000 + 30\%$ of $60000$ ]		₹ 780000
Factory shed [ $₹ 50000 + 30\%$ of $50000$ ]		65000
Addition to Factory Shed:-		
Cost	20000	
(-) Dep for 3 years @ 10% on WDV		
[ $20000 - 1800 + 1620$ ]	5420	
( $20000 \times 10\%$ ) ( $18000 \times 10\%$ ) ( $16200 \times 10\%$ )	14580	
(+) 30% being appreciation in value	4374	18964
Vehicles		20000
Furniture		5000
Stock		50000
Debtors		67000
Bank		5000
		2918964
(-) Bank Overdraft	300000	
Creditors	70000	
Capital employed		1918964

Statement of Average Annual Profits

Profit	31-3-2013	31-3-2014	31-3-2015
(+) Factory Shed	₹ 360000	₹ 470000	₹ 370000
	10000		
	370000		

(-) Depreciation	1000	9000	810
	<u>369000</u>	<u>469100</u>	<u>369190</u>

$$\text{Average Profit} = \frac{\text{₹ } 369000 + \text{₹ } 469100 + \text{₹ } 369190}{3}$$

$$= \text{₹ } 402430$$

Valuation of Goodwill:-

Average Profit. ₹ 402430

(-) Normal Profit [1918954 x 15%]	<u>287843</u>
Super Profit.	<u>114587</u>

$$\text{Goodwill} = \text{Super Profit} \times \text{No. of year Purchase}$$

$$= \text{₹ } 114587 \times 4 = \text{₹ } 4,58,348$$

Valuation of Share:-

Tangible Assets	<u>₹ 19,18,954</u>
(+) Goodwill	<u>4,58,348</u>
(+) Call-In-Arrears.	<u>1,00,000</u>
Total Net Assets.	<u>₹ 24,77,302</u>

Value of each fully paid equity share

$$= \text{₹ } 24,77,302 \div 10000 = \text{₹ } 247.73$$

Value of each partly paid equity share

$$= \text{₹ } 247.73 - \text{₹ } 20 = \text{₹ } 227.73$$

When one company hold shares in another Company.

Ill 61 - B Co. Ltd.

Calculation of Net Assets:-

Fixed Assets	<u>₹ 120000</u>
Current Assets.	<u>125000</u>
Goodwill	<u>50000</u>
Gross Assets	<u>₹ 295000</u>

	₹	
(-) Sundry Creditors	10000	
Outstanding Exp.	6000	
Net Assets		16000
		279000

$$\text{Intrinsic Value Per Share} = \frac{\text{Net Assets}}{\text{No. of Shares}}$$

$$= \frac{₹ 279000}{20000} = ₹ 13.95$$

A Co. Ltd.

Calculation of Net Assets

	₹
Fixed Assets	280000
Current Assets	200000
Shares in Btd $\left[ \frac{16000 \times 13.95}{20000 \times 80\%} \right]$	232000
Gross Assets	703200

(-) Liabilities

	₹
Sundry Creditors	100000
O/s Expenses	2000
Net Assets	601200

$$\text{Intrinsic value of share} = \frac{\text{Net Assets}}{\text{No. of Shares}}$$

$$= \frac{₹ 601200}{40000} = ₹ 15.03$$

Equity shares of different paid-up values.

III] Calculation of Net Assets or Intrinsic Value of Share

Total Assets ₹ 950000

(-) Fictitious Assets:-

Preliminary Exp.	45000	
Dis. on issue of Shares	20000	
Dep. Fund $[75000 - 15000]$	60000	
		125000

(+) Call in Advance 825000

Total Real Assets 835000

(-) 10% Debenture.	₹ 100000	
(-) Employees Saving A/c.	25000	
(-) Creditors.	85000	
(-) Employees Security Deposit.	20000	230000
Net Assets.		605000

$$\begin{aligned} \text{Total paid up value} &= [₹ 290000 + ₹ 10000] + ₹ 200000 \\ &= ₹ 500000. \end{aligned}$$

$$\begin{aligned} \text{Unit value of Capital} &= \frac{\text{Net Assets}}{\text{Total paid up value}} \\ &= \frac{₹ 605000}{₹ 500000} = ₹ 1.21. \end{aligned}$$

$$\text{value of ₹ 60 paid up share} = ₹ 1.21 \times 60 = ₹ 72.60.$$

$$\begin{aligned} \text{value of ₹ 60 called, ₹ 50 paid up share} &= (₹ 1.21 \times 60) - ₹ 10 \\ &= ₹ 72.60 - ₹ 10 = ₹ 62.60. \end{aligned}$$

$$\text{value of ₹ 20 paid up shares} = ₹ 1.21 \times ₹ 20 = ₹ 24.20$$