

## Sy B.com

### Corporate Accounting

### Valuation of Shares

Share is the smallest part of share capital of joint stock company.

The term value of share is basically mentioned as face value or market value of the shares.

The face value of the share is assigned by the promoters of the joint stock company. & the market value depends on the market situation of demand & supply.

### Methods of Valuation of Shares

1 Net Assets method / Intrinsic value method / Assets Backing method

2 Yield Basis method / Market Value method

3 Fair Value method

1 Net Assets method / Intrinsic Value method

→ Net Assets =

Realisable Value of Assets - External Liabilities

→ Calculation of Intrinsic Value of Equity Shares

$$= \frac{\text{Funds Available for Equity Share}}{\text{Number of Equity Shares}}$$

## 2. Yield Basis method.

### Two Types of Yield

#### a. Earning yield

Steps to calculate yield value of each Equity Share.

Step I - Calculation of Average profit

$$\text{Average profit} = \frac{\text{Total Profit}}{\text{Number of years}}$$

Step II Calculation of Maintainable Profit

$$\text{Maintainable Profit} = \text{Average Profit} - \text{Transfer to Reserve}$$

Step III Calculation of Capitalise value of Maintainable profit

$$\text{Capitalise Value} = \frac{\text{Maintainable Profit} \times 100}{\text{Normal Rate}}$$

Step IV Calculation of Yield value of each Equity share.

$$\text{Yield value} = \frac{\text{Capitalise value}}{\text{Number of Equity shares}}$$



## b) Dividend Yield

Step I Calculation of profit available for equity shareholders

Particulars	₹
Average Profit	xx
Less - Income Tax Provision	- xx
Profit after Tax	xx
Less - Transfer to General Reserve	- xx
	xx
Less - Preference Dividend	- xx
Profit available for Equity Shareholders	xx

Step II - Calculation of Expected Rate of Dividend

$$\text{Expected Rate of Dividend} = \frac{\text{Profit available for Equity Shareholders}}{\text{Total Paid up equity Capital}} \times 100$$

Step III - Calculation of Yield value per share

$$\text{Yield Value} =$$

$$\frac{\text{Expected Rate of Dividend}}{\text{Normal Rate of Return}} \times \text{paid up value of each Equity Share}$$

## 3 Fair Value Method.

Fair Value of each Equity share

$$= \frac{\text{Intrinsic Value} + \text{Yield Value.}}{2}$$

→ xx → xx →