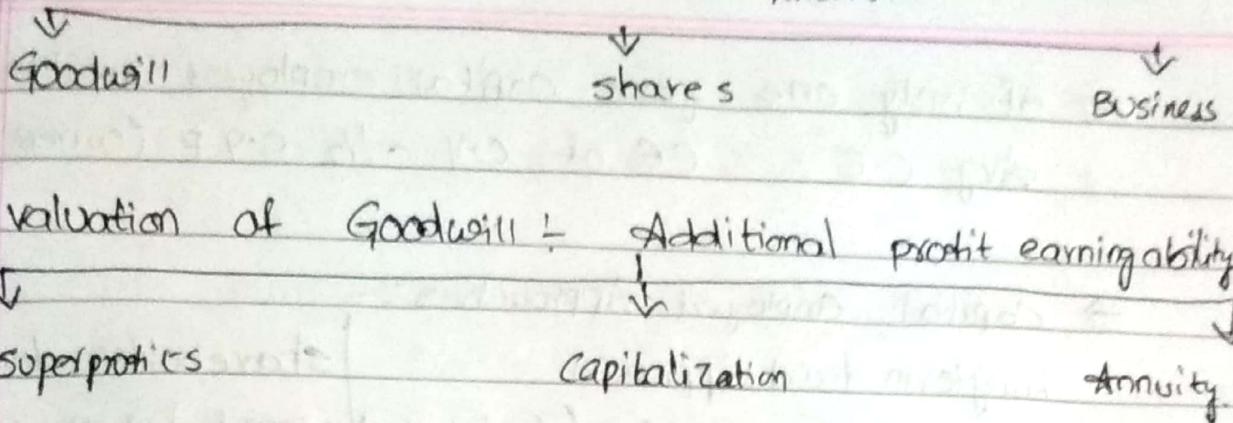


Valuation

Klvan Jr.



a) Super profits:-

$$G.W = SP \times \text{No. of years purchase}$$

SP = Over and above normal profits

SP = Future maintainable profit - Normal profit

→ future maintainable profit by a) Simple or b) Weighted avg or c) Trend analysis

Normal Profit = Capital employed $\times$ Normal rate of return

$$C.E = A - L$$

B/S

ESC	X	L&B	✓	M.V/F.V if no M.V/F.V take book value M.V - market value F.V - fair value
PSC	X	P&M	✓	
R&C	X	Furniture	✓	
Deb	✓	Trade inv	✓	
Creditors	✓	Non Trade inv	X (not relating to business)	
o/s exp	✓	Stock	✓	
pro dividend	X	Debtors	✓	
Provision for tax	✓	Bills receivable	✓	
		Cash at bank	✓	
		Prepaid exp	✓	
		Preliminary exp	X	

Note:- In absence of fair value, Book values have been assumed to be fair value.

→ If only one year capital employed available then
 Avg C.E = CE at C.Y - $\frac{1}{2}$ C.Y.P (current year profit)

→ Capital Employed Approaches:-

Long term fund approach

• every thing consider (don't deduct
 $\text{Ct} + \text{PR} + \text{Debt}$)

Shareholders fund approach

• don't deduct $\text{Ct} + \text{Preference}$
 debt deduct.

eg:-

Balance sheet of CA final may'18.

Liabilities	₹ in lakhs	Assets	₹ in lakhs
Share capital	80	fixed assets	180
P&L A/C	20	inventory	40
13% Debentures	120	Trade receivables	20
Trade payables	40	Cash & bank	20
	<u>260</u>		<u>260</u>

Sol:-
 • Capital Employed (Long term fund approach) =
 $260 - 40^{(T.P)} = 220 \text{ Lakhs}$

• Capital Employed (Shareholders fund approach) =
 $260 - 120 - 40 = 100 \text{ Lakhs}$

b) Capitalisation:-

Goodwill = Normal Capital employed - Avg Capital employed

$$A.C.E = \frac{f.M.P}{NRR}$$

Khanir.

→ Brand valuation :-
potential earnings model :-

Total earnings	xxx
- Earnings attributable to Tangible asset	xxx
Earnings attributable to Intangible ^{asset}	<u>xxx</u>

→ Total value of Intangible asset will be determined by capitalizing the earnings using appropriate capitalization rate.

Value of Brand = Total value of Intangible Asset - value of Intangible Asset other than brand.

→ Methods of valuation of shares:-

→ Net asset method (or) Intrinsic value method?

$$= \frac{\text{Net assets available for equity shareholders}}{\text{No. of equity shares}}$$

→ Calculation of Net assets available for equity shareholders

Goodwill if any	-	XXX	
fixed assets	-	XXX	(fictious assets don't include)
Investments	-	XXX	(Nontrade also consider)
Current assets	-	XXX	(Misc expenditure → prepaid → preliminary)
	A	XXX	
Less:- Current liabilities		XXX	
Debtures (including arrears of dividend)		XXX	
Preference share capital (including preference dividend)		XXX	
proposed equity dividend [cum → don't deduct Ex → deduct]		XXX	(if nothing mentioned in question consider as EX)
	B	XXX	
N.A.A.f.E.SH's	⇒ (A-B)	XXX	

⇒ Yield / Market Value method

↓ Earnings ↓ Paidup value × $\frac{\text{Earning rate}}{\text{Market rate}}$	↓ Dividends ↓ Paidup value × $\frac{\text{Dividend rate}}{\text{Market rate}}$
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Kiran Sir.

$$\rightarrow \text{Break up Value} = \frac{\text{Net assets available to equity shareholders}}{\text{Equity share capital (No. of shares)}}$$

$$\text{Market value} = \frac{\text{Avg dividend}}{N \cdot R \cdot R} / M.V = \frac{\text{Avg profit}}{\text{Paid up value of shares}}$$

$$\text{Fair value} = \frac{\text{Breakup value} + \text{Market value}}{2}$$