

Quadrant II - Notes

Paper Code: COD117

Module Name: Methods of valuation of shares-Yield value method

Module No: 24

- Steps for calculation of yield value(dividend/earnings):

i. Value of share based on rate of dividend/earnings:

$$= \frac{\text{Expected Rate of Dividend/earnings}}{\text{Normal Rate of Dividend/earnings}} \times \text{Paid up value per share}$$

ii. where, Expected Rate of Dividend = $\frac{\text{Profit available for Div/earnings}}{\text{Total Paid up Equity Capital}} \times 100$

iii. Profit available for dividend/earnings:

Average Annual Profit after tax	XXX
Less: Transfer to General Reserve	<u>XXX</u>
	XXX
Less: Preference Dividend	<u>XXX</u>
Profit available for dividend/earnings to Equity Sh.	<u>XXX</u>

- **Problem:**

Given the capital structure of Raj Ltd. as on 31st March 2021	
Particulars	Amt(Rs.)
12% Preference Shares of Rs. 100 each	6,00,000

Equity Share Capital of Rs. 100 each	18,00,000
Reserves & Surplus	4,20,000
9% Debentures	8,00,000
12% Bank Loan	4,00,000

Additional information:

i. The profits of the company for last three years were as follows: 7,55,000; 7,80,000 and 8,80,000.

ii. The tax rate is 30%.

iii. The shares of similar companies quoted in the stock exchange yield 12% on their market value.

iv. It is the practice of the firm to transfer 10% of the profits to reserves.

v. There is claim for bonus amounting to Rs. 7,000.

Calculate the value of share of Raj Ltd.

Solution:

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a. Profit available to Equity Shareholders

Profits for last three years(755000+780000+880000) 24,15,000

Less: Bad debts 7,000

24,08,000

Average profits=24,08,000/3 8,02,667

Less: Interest on Debentures 72,000

Interest on Bank loan 48,000 1,20,000

		6,82,667
Less: Tax @ 30 %		<u>2,04,800</u>
		4,77,867
Less: Transfer to General Reserve	95,573	
Preference Dividend	<u>72,000</u>	<u>1,67,573</u>
Profit Available to equity shareholders		3,10,294

b. Expected Rate of Dividend

$$= 3,10,294 / 18,00,000 \times 100$$

$$= 17.24\%$$

c. Value of Share

$$= 17.24 / 12 \times 100$$

$$= \text{Rs. } 143.67/-$$