Journal of Accounting and Finance
Volume 36, No. 2 · April 2022-September 2022

A Study on the Appraisal and Valuation of Shares- An Analysis

Vandita K. Das

Abstract

A mental concept used as a label or name to describe a monetary conclusion about property. The word value does not represent an actual object. Consequently, it is not sane thing that physically exists. Rather, value is merely a word symbol that people use to denote a monetary conclusion or result. The word has no real significance unless the under dying monetary presumptions or determinates from which value was derived art clearly understood and accepted. The proposed research paper studies the ideas that will develop the concept of value and nature and different types of shares along with appraisal of share of company. The paper will deeply study the theory of the principles of valuation of shares.

Keywords: *Value, Share, Appraisal of Share, Valuation of Shares*

Introduction

Value is created - wealth is created - when all four agents are brought together to create or produce something useful and desirable. This theory is called the COST OF PRODUCTION THEORY; i.e., value is based on the cost of production. Smith brought us to the concept on which our present COST APPROACH to value is largely based s namely, that value is objective; value is in the object. Nevertheless, it is not in absolute value as the ancient people aid; it is not a moral value as the philosophers of the middle ages said. It is a value based on 'the cost of bringing an object into being. The four (three) agents of Production were first mentioned by Smith, and they formed a great deal of the foundation of our modern theory of economics, even of appraising. Each of these agents has a return connected with it. We call the return to land RENT, the return to labour WAGES, the return to capital INTEREST and the return to coordination PROFIT. Smith's primitive concept is the basis for the appraising. Smith's value of an asset was sum total of rent, wages, interest and profit. The Historical and Institutional Schools also have influenced the theory of value. As the name implies# the Historical School emphasized the study of history for a better understanding of economics - not economic history alone but all facets of history including politics human behaviour and technological advances. "Learn the facts and hewill tell their own story "Argued the Historical School. "Not so," said the Institutionalists. "The facts must be analysed carefully in the light of a constantly changing

Vandita K. Das, Research Scholar, Department of Commerce, Periyar University, Salem, Tamilnadu, India

milieu. The Institutional School emphasised the study of economics in terms of contemporary human behaviour and business organization. The son of Norwegian immigrantThorsten Veblen was a loader in this school His most disturbing book was The Theory of the Leisure Class1- in which he critically examined the emergence of a large class of people - beneficiaries of the capitalist system - who made no real contribution to human progress. Contemporary appraisers work with a concept of value that is still maturing after a stormy childhood and confusing adolescence. The colour and fabric of the term have been determined by a curious procession of persons little known outside the "dismal science" of economics. Philosophers' persons revolutionaries' scholars - all struggling to find solution to the riddle of life surrounding them - have passed us the baton in a never-ending race for the truth. Each of them had a notion, a theory or a prophecy born of his concern for the quality of life in his own particular milieu. None of them was entirely correct; none entirely wrong. The virtue of each was that he observed inquired researched and recorded faithfully his conclusions. He was faithful to the truth as he saw it. This treatise is an attempt in this direction; limited to appraising of shares in a company for fiscal purposes; an attempt to add one drop to the vast ocean of knowledge. It draws heavily and without any hesitation from the available reservoir, if it can add to or refine an iota of it; the attempt made herein would be worth its labour. It joins professional appraisers in discharging their responsibility to continue to search out facts observe trends, interpret human Interactions and record their judgements with integrity. In a constantly changing world the slogans of the past must ever be challenged by the realities of the present.

Literature Review

Byrl b. Boyce: "The quantity of one thing whichcanbe j obtained in exchange for another". "Value is the present worth of future benefits arising out of ownership to typical users or investors."

Oxford Dictionary of English Etymology: "Value - adequate equivalent; material or monetary worth worthiness? relative status or estimate; amount represented by a symbol."

New Columbia Encyclopaedia: "Price is equivalent to market value.'

The appraisal of Real Estate, 8th ed.: "Value is extrinsic; it is created in A the minds of people who constitute a market."

New Word Webster's Dictionary: A fair or proper equivalent of money, commodities, etc. especially for something sold in exchange, fair prices or return, Worth of a thing in money or goods at a certain market price, Estimated or priced to worth or price valuation, purchasing power (Fluctuating value of the Dollar), That quantity of a thing according to which it is thought of as being more or less desirable useful, estimate important, etc. worth or the degree of worth, That it is desirable or worthy of esteem for its own sake, thing or quality having intrinsic worth.

Real Estate Appraisal Terminology: American Institute of Real Estate Appraisers: "Market value - The highest price in terms of money which a property will being in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, acting prudently, knowledgeably and assuming the price is not affected by undue stimulus."

Objectives of the Study

- To identify the factors effecting the development of the concept of value.

- To identify the nature of shares including the identification of different types of shares.
- To identify the nature and study of appraisal of share of a company for fiscal purposes.
- To study the principles of valuation of shares both in theories and practice.

Methodology

The methodology used in order to achieve above objectives was to guide the study to the area of the theory of valuation starting from the historical background of concept of value in economics. Theoretical background needs to be modified to suit the practical requirement of the modern appraiser in the context of the appraisal process. For the purpose the study was made of the theory oi value in economics starting from the "Wealth of Nation" of Adam Smith published in the year 1776. The evolution of concept of value was studied from the various economists like Malthus, Ricardo, Karl Marx, JohnesStauart Mills, Austrian and neo-classical school ofthoughts. The study of definition of value# market and market value are to be based on the definitions issued by the American Institute of Real Estate appraisers. In order to make it practical, the study has identified the quality and qualification that an appraiser should have and set out the stages for commencing and completion of his assignments. In order to achieve t this# the study was guided through the literatures available on the subject of valuation specially in respect of the real estate appraisers from where theory of valuation to be used in both commercial and tax world is well established compared to other areas and is more complicated in nature.

Results

The subject of Valuation of Shares has always been controversial in the profession of Accountancy. The subject has complication in the areas of Accounting Financial Management as well as the Tax Management. As to the result of the appraisal done by the professional accountants no two accountants have ever agreed in past or will ever agree in the future on the subject of the appraisal of the value of shares in a company, as it inevitably involves; apart from the application of their professional skills, the use of personal judgement on which professional man will necessarily differ. Owing to these professional differences of opinion in the accounting profession as to the valuation of shares in a company many outsiders have erroneously come to the conclusion that there are no scientific methods of valuation of shares in existenceWhile basic principles have remained intact over, the years the practice of valuation of shares in a company is a dynamic discipline constantlychanging with economic and industrial conditions, evolution of new concepts of finance both at national and international levels, new business environment, new political orders new laws rules and regulations, new controls, latest court decisions and changing business practices. The emergence of appreciation of competent valuation of shares in a company is a natural outgrowth of the general trend towards increased sophistication amongst the financial managers investors and tax authorities. The increased perception of the complexities of the valuation of shares in a company by all concerned parties is rendering obsolete the old seat-of-the-pants approaches to the valuation of shares in a company. The study of valuation of shares is embarked upon bearing in mind the necessity ofthe illusion that there are no scientific methods of valuation of shares in a company in existence and simultaneously to bring out the inadequacies of the old methods of valuation of shares in a company# in order to develop -a system of compilation, co-relation and assessment that would enable the appraisers of share value for fiscal purpose to fulfil theirassignments in a scientific and Tell documented manner so as to reduce; to the extent possible the requirement of using personal judgements.

Discussion

The process by which a value of a thing is assessed or determined is commonly described as "Valuation". As to the approach to the valuation process just like content or meaning of the Value i there is a great deal of variations and has to be approached according to the purpose for which valuation is to be made. "An electric light and power company is organised under the laws of one of our forty-eight States, for the purpose of constructing and operating a power plant and distributing system. The cash-cost of the construction is $ 100,00,000 against which the company issues $ 1,50,00,000 par value of bonds, preferred stock and common stock. Several years after the promotion of this enterprise, the State Public Service Commission values the property in order to determine the reason-ableness of the rates which are being charged by the Company. The commission finds a value for rate-making purposes of $ 1,10,00,000 but on appeal the company secures from the United States Supreme Court a holding that 'fair value' of the property is not less than $ 1, 30,00,000.While the Public Service Commission has been making the above appraisal, a different branch of the Government, the State. Board of Tax Assessors, has assessed the property for the purpose o; the general property tax. Por this purpose, however, the value has been fixed at $ 80,00,000. Two or three years later, the public utility runs into financial difficulties with the result that a receiver is appointed. After a delay of many months, a reorganisation takes place by means of foreclosure of the corporate mortgage. At the foreclosure sale the entire property is sold to the reorganisation committee for the sum of $ 50 00,000 which is the upset price fixed by the court as representing the value of the assets. As soon as the reorganisation committee makes the purchase for $ 50,00,000 it transfers the property to a new corporation, receiving in exchange an assortment of stocks and bonds amounting to a total par value of $ 1,20,00,000. Before issuing -these new securities, the committee is obliged to secure the approval of the Public Service Commission, under the authority to regulate all public utility securities. The approval is given after strenuous opposition on the part of a minority of the commission, who insist that the 'fair value' of the property is clearly less than $1, 20, 00,000.

the appraiser should cultivate the art and capacity to reach to the core or essentials of the problem of valuation. In other words, perspicacity should be one of the essential qualities that an appraiser should have. This is essential because an appraiser must know exactly the various elements of the appraisal assignment. This is more important when appraisal or valuation of shares in a company for fiscal purposes is involved. The identification of interest in property would enable the appraiser to reach to the core or the essential of valuation of a property and identify the fiscal rules applicable. We have also concluded that what appraiser really undertakes in an appraisal assignment is the appraisal of the interest .and/or dis-interest in the property and not the property itself. This emphasizes, the need of appraiser acquiring sufficient knowledge about the various aspects concerning the property and the factors that affect the value of such a property. The valuation of shares in a company for fiscal purpose or otherwise would require Thorough knowledge on the part of appraiser the following aspects:

- The nature of company as an organization;

- The various types of companies;
- The legal nature of shares.

In his Book "The Social Frame Work", Sir John R. Hicks commenting on the two main features of company's limited liability and transferability said s "He states that the shareholders have the protection of limited liability; but otherwise, he puts himself into the hands of his directors just as the sleeping partner puts himself into the hands of his associates. He gives over his property to the Directors and lets them manage it for him so that it depends on their ability and their diligent whether or not he gets a good return or whether he loses it altogether. At first sight it seems astonishing that shareholders should be found who will have such confidence in the Directors of public companies' people with whom they are most unlikely to have in close acquaintance. The explanation is partly found in another sequence of limited liability. Since a shareholder cannot lose more than he has put in whatever happens to the company in which he is invested, he will be in a safer position if he has small holdings of shares in a number of different companies than he has all his eggs in one basket. This sleeping partner could not do without adding to his risk, but it is the common practice of the modern capitalist."

Another way in which shareholders in a public limited company is protected is by the facility with which he can dispose of his shares whenever he desires. Shares in a private company cannot be sold except with the consent of the Directors of the Company but shares in public companies can usually be bought and sold quite freely without the company's official being consulted in any way. In order to facilitate such transactions# there is a body of dealers, who are organized in the; stock exchange. The ability to sell its shares on the stock exchange does not indeed safeguard the shareholders against the loss if he gets bad news about the company and so wants to dispose of his shares, the chances are that other people will have heard of it. as well, so that buyers will be hard to find except at the reduced price. But the pessimist does get a chance of withdrawing his fingers before they are burned too badly.

It is very clear that the two fundamental aspect of shares in a company that is limited liability and transferability of the shares in a company would enable the shareholders to venture out and invest in the shares of a Company. A company may be defined as a form of organisation owned by large group of individuals called shareholders managed/launched by small number of individuals elected by the shareholders called "Board of Directors." The Company form of organization has benefit of common seal and perpetual succession. It is the legal person, separate from the person who owns it. The word Company: originally means, an association of a number of individuals formed for seme common purpose. It involves two ideas. Firstly, the members of the association are so large that it could not be described as a firm or a partnership and it permits the transfer of interest in the association subject to the formalities that are prescribed.

- **Definition of Shares**

  The definition of share in The Companies Act 1956 do not really gives a satisfactory exposition of what a share really is. The definition share that Shares means a share in capital of a company, and include stock except where a distinction between the stock and share is expressed or implied." Section 82 of The Companies Act, 1956, states that the share or other interest of any member in a company, shall be immovable property transferable in the manner provided by the Articles of the company. But, the term 'share is defined differently in the course of judicial pronouncement. A share has been defined as an interest of the share-holder in the company which is measurable by a sum of money and is made up of various rights conferred on its holder by the Articles of the company which constitute a contract between him and the company or alternatively also as the interest of the shareholder in the company measured by a sum of money for the liability in the first place, and of interest in the second constituting the series of mutual consents entered into by all the share-holders interests.

- **Interests of Shares**

  Two Basic Interests - Dividend and Return on Capital;

  The interest of the shareholder as specified by the Memorandum and Articles of Association of the company and the statute governing the affairs of the company relates to the nominal amount of a share which a person holds in a company and represents that portion of the Subscribed Capital of the company which, until contributed is shareholder's liability in respect of that share, and which, when contributed is the proprietary interest which belongs to him as the holder of that share. The share; confers on the holder a right to participate in the profits made by the company while it is a going concern and in the assets of the company when it is wound up.

- **Rights and Duties Carried by a Share**

  Although the rights and duties carried by a share are, on principle, indivisible, it is often convenient to regard a share as a bundle of several rights and liabilities and to consider these separately;

  - the right to dividend, if, while the company is a going concern, when validly declared
  - the right to vote at the meetings of members
  - the right, in the winding up of the company, after the payment of tine debts to receive a proportionate part of the capital or otherwise to participate in the distribution of assets of the company.

  A share is a movable property both under the Companies Act 1956 and the Indian Sale of Goods Act 3 1930. But a share is not a movable goods like furniture wearing apparel, a bag of rice or similar natural goods. It is only so by definition in the statute. Normally any goods of a natural description can be acquired, transferred or disposed of without any specific formalities being required to be followed. The acquisition transfer or disposal of shares is however, governed by the statute and the rules made thereunder and the Articles of the company. Its transfer in any other manner is not permissible. The Articles of a company invariably provide the manner in which the share transfers are to be affected.

- **Types of Rights**

  Prima facie the rights carried by the shares rank Paripassu i.e., the shareholders participate in the benefits of membership equally. It is only when a company divides its shared capital into different classes with different rights attached to them that the prima facie presumption of equality of shares may be displaced. Speaking generally, a separate class of shares is constituted when the principal rights carried by the shares differ from those carried by other shares; e.g., some shares carry preferential or deferred rights as to dividend or capital, or more votes than other shares. But differentiation between other rights may suffice to create a different class of shares, e.g., differences as to freedom of transferability, or redeemability under The Companies Act, 1956. Where a company has divided its capital into different classes these classes have usually distinguishing descriptions and a company is at liberty to attach to them such descriptions as appear appropriate. Often the classes of shares are described as "Ordinary Shares" "Preference Shares," "Employees' Shares" and "Deferred Shares." Sometimes, however, a company may use a more complicated terminology and e.g., refer to them as "First Preference Shares", "Ordinary Preference Shares", etc. The law does not attach a rigid, uniformly applicable meaning to these descriptions. The rights carried by the shares have in every case, to be gathered from the terms of issue and normally reproduce the relevant provisions of the Memorandum and Articles.

- **Share Valuation for Fiscal Purposes**

  When one is engaged in/process of Share valuation for fiscal purposes, considerations other than which applies for the valuation for other purposes apply. Lord Russal of Killoweon, IRC Crossman IRC V Maun (1936) (19 37) AC 26, (1936) 1 Aller 762 52 TLR 415, 80 Sal Jo 485, Sub nom Re Crossman Re Paulin 105 I&JB 450; 154 LTT 9702 said "It is not a question of actual value or their true /V value, or their intrinsic value or their value in some particular person's ownership. The value to be Ascertained is their statutory value. Prior to listing of the basic elements, the appraiser has to ascertain the interests to be valued in arriving atthe statutory value. These are to be based on the provisions contained in the relevant statutes and the case laws.In the fiscal valuation the objects of the tax gatherer and that of tax payer are conflicting, each one pulling in the different directions. However, by laying down conceptual theory, modifying it with statute and judge-based law appraiser can well ascertain the interest to be appraised. Knowledge on nature of share coupled with the need of law as interpreted by judges would enable him to complete his task. It is also accepted that we are not dealing with an exact science. The factors involved in it are many and varied and subject to constant change. The valuer of shares for fiscal purposes has to consider these factors in context of ever-changing statutory provisions and interpretations chat the courts may give them. Practical experience should always add to the theories advanced. There is no substitute for correct day to day real life situations. Lord Johnston IR Harry's Trustees (1906) 44 Sc LR 6471; 14 SLT 5851 said while relaying on practical experience of a trained appraiser "I would definitely rather trust his trained and practical institution, though it would appear on paper to produce somewhat of a rule of Thumb result than many a more apparentlyscientific value classification."

- **Occasions for Valuation**

  - **Stamp duty**

    Stamp Duty is leviable on the instrument and not the transactions contained in the instrument. Thus, every instrument of transfer of shares in a company would attract Stamp Duty. This Stamp Duty is to be paid on value of share to be transferred. The

Indian Stamp Act 1899 is the Central Act and the States all over the country have their own local acts. However, those documents which are specified in Entry 9.1 of list of the 7th Schedule ofConstitution of Indian are excluded from the purview of and the operation of local act. Amongst the documents are Transfer of shares on which Stamp Duty is leviable under the Indian Stamp Act 1399.

- **Tax on Income**

  Under Income tax, value of share would be required to be ascertained:

  a) Where there is actual sale or transfer of shares by dealer in shares of investors and income on account of such a sale ortransfer is to be ascertained. The aspect bonus shares, right share is to be considered.

  b) Any case where value of share is part of the income of a person like distribution of share in spec.ie by Companies; issue of shares in circumstances where such issue comprises a perquisite arising out of employment or carrying on business.

  c) Any transaction involving expenditure on purchase of shares and attraction provision of section 40A of Income Tax Act 1961.

  d) Every transaction whereby a person acquires any right, in respect to any building (whether or not including any machinery plant furniture, fittings or other things there in) by acquiring shares in a company not involving a transaction by way of sale exchange or lease of such building or part of a building which is required to be registered under the Registration Act 1908 (16 of 1908).

  e) Recovery of tax due from defaulter by attachment and sale of share in a Company.

  f) In circumstances as enumerated in sec.69, 69A 69B and 69C as to unexplained investments, unexplained assets, Number of investments, etc, not fully recorded in books of account and unexplained expenditure and it relates to shares in a company.

- **Capital Gain Tax under Income Tax**

  Where there is actual sale and transfer of shares by investor# income on account of such sale or transfer is to be ascertained. The aspect Bonus shares, Right shares are to be considered. On certain actual transfer and all deemed transfer of shares the sale and acquisition are treated as being made for a consideration equal to the fair market value of thesubjectmatter.This rule applies in following cases.

  a) Any transfer by way of conversion of a capital asset into or its treatment by him as a stock in trade of business sec'. 45(2)

  b) Any transfer of a capital asset by way of distribution of capital asset on dissolution of a firm or other association of persons or body of individuals (not being a Company or a co-operative society) or otherwise sec. 45(4).

  c) Any transfer of shares in a Company held as capital asset; as a stock in tradeby wholly owned subsidiary to holding company and vice versa.

Where a shareholder on the liquidation of a company receives any assets from the company, and if such assets is share in other company sec. 46(2).

- **Wealth Tax**

  Under wealth tax Act, 1957 wealth tax shall be charged for every assessment year commencing on and from 1st day of April, 1957, in respect of net wealth of every individual, HUP and the company at the rates specified in Schedule 1. Met Wealth is aggregate of value computed in accordance with the provisions of the Act, after deduction of debts. Sec. 7 of the Act provides the machinery sections for the valuation purposes. Net wealth involves ' share in a company and is to be valued from year to year.

- **Gift Tax**

  Under Gift Tax Act, 1958 Gift Tax shall be charged for every assessment year commencing on and from the 1st day of April 1958 in respect of gifts, if any, made by a person during the previous yearat the rates or rates specified in the schedule. Sec. 6 of the Act providesthemachinery for the valuation purpose. Every gift of share in a company involves consideration of value thereof.

- **Estate Duty**

  Under Estate duty Act 1953 Estate Duty is chargeable on the principal value of assets of a person which passes on the death of such person. Part V of the Act contains the machinery sections for arriving at the principal value of the property. The Estate Duty Act though in force no duty is leviable since 16.3.1985.

- **Wealth Inheritance Duty Act**

  This tax though envisaged to be levied by the Honourable Finance Minister as per his budget speech on 28.2.1987 contemplated to be in lieu of Estate Duty and proposed to be based on Wealth Tax Act has seen the light of the day only recently. However, this tax is there in other countries. The Act is brought on statute book the valuation of shares in a company would be required to be done for the computation of levy.

- **Court fees Act**

  For the purpose of Court Fees, when the shares are the subject matter of the plaint, the same is required to be appraised.

- **Valuation for Probates**

  When share in a company is a subject matter ' of a petitioning for granting probate or letters of administration, the probate duty is to be paid on the value of share calculated at the price on the j day. Hence such shares are required to be appraised.

- **Valuation of Shares for the purposes of Company Act**

  For the purpose of Companies Act, occasions such as amalgamation or transfer under the order of the court under Section 402, the appraisal of shares in a company is required to be done for the company law purpose. However, this apprising of the valuation of the shares is not for the fiscal purpose as the value arrived is not a matter of levy of any tax or duty.

- **Appraisal of Shares for Stamp Duty Probates and Court fees**

  Power to prescribe rate of stomp duty in respect of transfer of shares is given in the Union list of the constitution, parliament has, therefore the exclusive power to prescribe the rates of stamp duty on the transfer of shares. The Stamp Act, 1899 (Articles 62) prescribes the levy of stamp duty for the purposes of transferwhether with or without consideration of shares in an incorporated company or other body corporate.

- **Statutory Provision**

Sec 21 of The Stamp Act 1899 provides "where an instrument is chargeable with advolerum duty in respect of any stock or any marketable or other security, such duty shall be calculated on value of such stock or security according to the average price or the value thereof on the day of the date of the instrument."Sec 2(l6A) of The Stamp Act 1899 defines marketable security as "a security of such description as to be capable of being sold in any stock market in India or in United Kingdom." 02.03 The rate of stamp duty is provided in Article 62, Schedule I to The Stamp act 1899. Sec 22 provides that where an instrument contains a statement of average price and is stamped with in accordance/such statement, it shall so far as regard to subject matter of such statement be presumed, until contrary is proved, to be duly stamped. Sec 2 (46) of The Companies Act, 1956 defines "Share" means "share in the share capital of a company, and includes stock except where a distinction between stock and shares is expressed or implied.

- **Identification of Interest**

A "Marketable Security" denotes a security which is "capable according to the use and practice of stock markets, of being there, sold and bought." This will on one hand, exclude such securities as mortgages on land or proper heritable bones, but on other hand, will include debentures of companies" (Taxas Land Cattle Company v Inland Revenue (1908) Commissioners 16 Court Cases 4th Series, 69, 26 SC L.R. 49J The word security does not necessarily cannotfi a mortgage or pledge but rather property. (Sheyer Brothers V Inland Revenue Commissioners (1907) K.B. 246 SC (1908) AC 92). The words used ' are "of such a description as to be capable of being sold." The test is not whether the security is quoted one stock exchange or whether there is a market for security in question; it is enough if, having regard to the use and practice of stock markets, the instrument is of such a description that it is capable of being bought and sold in stock markets. (Texas Landand Cattle Company V. Inland Revenue Commissioner (1888) 16 Court Sess cases 4th series 69, 26 SC L.R. 491 2 3, Brown Shipley & Co. V. Inland Revenue 2 Commissioners (1895) 2 Q.B. 598,Sheyer Brother V Inland Revenue Commissioner (1908) A.C. 92. So, the debentures of a private company containing no provisions objectionable to stock exchange are marketable securities. (Sheyer Brothers v Inland Revenue Commissioner (1908) A.C, 92). The Stamp Act 1899 does not define stock but the English Stamp Act (54 and 55 Vic C 39) sec 122 defines it to include any share in any stock or funds transferable at the bank of England or at Ireland and India.The Companies Act 1956, in an inclusive definition defines share as "share includes stock except where a distinction between stock and shares is expressed or implied. Thus, shares in a company whether private or public is a marketable security under sec. 2(l6A) ofThe Stamp Act 1899 and is to be valued as provided in section 20 to 22 of the said Act. According to article 62, stamp duty is leviable on instrument: of transfer of shares with or without consideration. Thus, transaction including gift of shares are also covered. The said article has used shares as plural on one occasion and share as singular on other to prescribe the rate per share.

- **Valuation**

  The value of shares in company to be adopted as provided in sec 22 of The Stamp Act 1899 shall be according to the average price or the value thereof on the date of instrument. Sec 22 provides for the presumption in favour of what is stated in the instrument as to be the correct value, until contrary is proved. The occasion for valuation of shares in a company for Stamp Duty purpose would arise only when presumption inform ox correctness as to what is stated in the instrument is challenged. In that event the value is to be ascertained as under:

a) To ascertain the collect average prices or

b) Value

The first part presupposes that. there is average price of share available. The requirement of drawing an average presuppose the axis pence of day to day or regular interval quotations or transactions as in the case of shares listed in a stock exchange. Though ultimately the facts and circumstances of the case, the nature of the company prospects of profitability and such other considerations will be taken into account.in ascertaining the correct value of shares Ln case of. second alternative. The following principles are; normally applicable

a) Where the shares are of a public company which are net quoted on a Stock Exchange or of a private United company, the value: determined by reference to the dividends if any, reflecting the profit earning capacity on a reasonable commercial basis. But if profits are not reflected in the dividends, then one can, on examination of the Balance Sheet, ascertain the profit earning capacity or the concern and, on the basis of potential yield, fix the valuation, Then the amount of yield on that bar is will determine the value of the shares. In other words, the profits which the company has been making and should be making will ordinarily determine the: value, The dividend and earning method or yield method are not mutually exclusive both should help in ascertaining the profit earning capacity as indicated above. If the results of the two methods differ, an intermediate figure may have to be computed adjustment of unreasonable expenses and adopting a reasonable proper profit. In the case of a private limited company also, where the expenses are incurred out of all proportion to the commercial venture, they will be added back to the profits of the company in computing the yield. In such companies the restriction on share transfers will also be taken into consideration.

b) Where the dividend yield and earning method break down by reason of the company's inability to earn profits ana declare dividends, if the set back is temporary then it is perhaps possible to take the estimate of the value of the shares before set back and discount it by a percentage corresponding to the proportionate fall in the price of quoted shares of companies which have suffered similar reverses.

c) Where the company is ripe for winding up, the breakup value method determines what would be realised by that process.

d) Valuation by reference to the assets would be justified where thefluctuations of profit and uncertainty of the conditions at the date of the valuation prevent any reasonable estimation of prospective profits and dividends.

However, the aforesaid rules are no hard -and fast rule. But the value# unless in exceptional circumstances, cannot be determined on the hypothesis that because in a private limited company one holder can bring it into liquidation, it should be valued as on liquidation by the break up method. Where the shares in a public limited company are quoted on the Stock Exchange and there are dealings in them# the price prevailing on the valuation date is the value of the shares. The yield method is the generally applicable method while the breakup method is the one resorted to in exceptional circumstances or where the company is ripe for liquidation but nonetheless is one of the methods.

- **Appraisal for Court Fees**

  The appraisal principles as explained above are applicable in case of the appraisal of the shares in a company for court fees. For the purpose of Court Fees, if the shares have market value (quoted shares) at the date of presenting the plaint, then such market value will be taken. The difficulty in putting of exact meaning to the term Market Value is already explained in earlier Chapters. In case of shares which hasno market valuethe value stated in the plaint is accepted for the purpose of paying the Court Peas. (Section 7(iii) & (iv) (a) of the Court Fees Act 1870).

- **Appraisal of Probates**

  When application for grant of probate or administration is made the probate duty is to be paid on the value of share calculated at its price on the day. The price on the day is not explained# but appears to mean market price as on the day (Section 191 (l) and item (ll) of Schedule I of Court Fees Act 1870).

- **Value of Unquoted Shares for Tax on Income**

  Income tax is an annual charge on income tax is charged on income of every person and is levied on the 'total income' to be computed in accordance with the provisions of Income Tax Act 1961. Total income is computed under the heads: (l) Salaries (2) Income from house property (3) Profits and Gains from business and profession, (4) Capital gains and (5) Income from other sources. 01.02 "Though there are different conceptions of "Income" for the purpose of taxation, income is broadly defined as the true increase in the amount of wealth which comes to a person during a stated period of time" (Commissioner of Corporation and Taxation v. Filoon). Where a transaction involving transfer or otherwise of share in a company results into generation of actual or deemed increase in wealth of aperson? income for tax purposes generated. Computation of an income; from transactions involving transfer of shares would involve looking in to the cost anchor value of the said shares, which at times would have to be determined artificially on the date of transaction. To give relief to the assesses from capital gain attributable to inflation or fall in value of rupee; scheme of Capital Gain provides for the notional substitution of value from time to time. This value as on day, is allowed as substitute for the original cost. The substitute notional replacement value for the purposes of capital gains would require appraisal of the value of shares as on that date. For the purposes of income tax the appraising would involve either ascertainment of the cost of acquisition of shares in a company for capital gain or ascertaining the fair market value for income under other heads of income.The issues of appraisal of shares in a company would involve;

In valuing share of a company principles enunciated by Supreme Court in MahadevJalan's case still holds good. For ascertaining the cost, the things stand on a different footing,it is like searching for a person who is -lost but does not want to be found out. Unless he decides to be found out the searcher would find it extremely difficult if not impossible to find it in case of appraising of shares in a company for the purposes; of property acquisitions the appraising problem relates to appraising of the specific real estate

- **Valuation of Quoted Share**

  Share prices quoted on various stock exchanges admittedly play a dominant role in determining the valuation of shares of companies whose stocks are actively traded. They also offer reasonably reliable evidence in respect of valuation of shares of those companies that are not actively traded but belong to company in the same industry. But it is a fundamental error, to assume, that the stock exchange "fixes" the price of shares in which it deals. The council of the "stock exchange" London has expressed this important truth as under "We desire.to state authoritatively that stock exchange quotations are not related directly to the value of a company's assets, or to the amount of its profits and consequently these quotations do not matter what may be chosen forreference, cannot form a fair and equitable# or rational basis for compensation."

  The stock exchange whether as institution or as a body of individual members, does not determine the prices of which official list is a record. The stock exchange may be linked to a scientific recording instrument which registers, - ret its own actions and opinions, but the actions and opinions of private and institutional investors all over the country and indeed, the world. These actions and opinions are the result of hope, fear, guess work intelligent or otherwise, good or bad, investment policy and many other considerations. The quotations that result, definitely do not represent a valuation of a company by reference to its assets and its earning potential.

Thus, stock market quotations are result of:

- Hope and/ or
- Fear and/or
- Intelligent guess work and/or
- Unintelligent guess work and/or
- Good investment policy and/or
- Bad investment policy

But they do not represent valuation of shares by break up method or by yield method.The Direct Taxes Amendment Act 1989 has sought to give great importance to the stock exchange quotations for the purposes of valuation of shares of quoted companies the stock market quotations would be accepted. It has defined quoted shares unquoted shares and recognised stock exchange and have provided mechanism to ascertain whether the shares are regularly quoted or not.General principle is that the value of shares quoted on recognised stock exchange be accepted for the purposes of valuation. Thus, for purposes of fiscal valuation of shares unless contrary is proved the price quoted on stock exchange is taken as thevalue of a share. If price on the date of valuation is not available last available price is taken. Direct Tax Amendment Act 1989 in Annexure III to the Wealth Tax Act provides for a certificate from the recognised stock exchange in the event of a dispute whether a particular share is regularly quoted or not in a prescribed form. The Wealth Tax Act have not defined specifically how the stock exchange authorities would be in position to issue a certificate that the shares are regularly quoted in the ordinary course of business. It is also further to be noticed that non-guidelines so far have been issued in this subject matter. In the past the approach made by of the Income Tax Department in the case Birla Group of Companies challenging the stock market valuation of the quoted invested companies have not been successful because of the various practical factors involved. The same situation shall prevail even in case where there is suspicion in the mind of the assessing officer that thestock market quotations are not in the ordinary course of business. Thus, it is in the interest of the simplification of theappraisal process that there should not be any challenge to the stock market value/quotation. However, for the purpose of computation of income under Income Tax Act if it is shown that the stock exchange quotations are manipulated the value other than the price may be taken as a fair market value. However, there is a distinction between the regular quotation and frequent quotation. The term regular cannot be equated with frequent.

- **Valuation of Shares**

  Section 7 sub section 1 of Wealth Tax Act 1957 (hereinafter referred to as Act) relating to valuation of assets is reproduced in Annexure II. This section prior to its amendment through the Direct Tax Law Amendment Act 1989 embodied the concept of open market valuation. With the amendment through the Direct Tax Laws 1988 now value is to be determined in the manner laid down In Schedule III of the Wealth Tax Act. Thus, from assessment year 1989-90, the provision under Schedule III to the Wealth Tax Act would govern the valuation of various tax of assets for the purpose of levy of wealth tax. The concept of open market valuation is given a go by with the amendment of Sec. 7(1) and now Wealth Tax would be levied on the value of an asset as arrived in accordance with the provisions contained in Schedule III of the Wealth Tax Act 1957. This conceptual change in the valuation principle has hence-forth, to a great extent obviated the necessity tolook into the controversies regarding the meaning and nature of open market. Henceforth the Wealth Tax would be levied on a statutory value, if it may be called so of anasset.

  The approach to valuation of shares in a company under the Wealth Tax Act would require the study to be made under the following heads:

  1) Valuation of quoted Equity and Preference shares
  2) Valuation of unquoted Equity shares of companies other than investment companies;
  3) Valuation of unquoted Equity shares of the investment companies
  4) Valuation of unquoted Equity shares in inter-locked companies;
  5) Valuation of unquoted Preference shares.

  The amendment effected in the various Rules for valuation under Wealth-tax Act indicates the realisation on the part of revenue that the simplification of the rules would enable Theauthorities to concentrate more on important matters rather than cumbersome exercise of arrival at the market value of the Asset, It is a bold approach and needs to be commended. It has simplified the task of appraiser.

- **Gift Tax Act**

  The Taxation Law Amendment Act 1989 by amending Section 6 of the Gift Tax Act 1958 and stipulating that the value of Gift shall be determined in the manner laid down in Schedule 2 of the Act which is reproduced as Annexure III. The same Schedule howeverlaid down that the provisions of Schedule 3 to the Wealth Tax Act shall apply in regard to valuation of any property other than cash. In other words, the valuation basis both for Wealth Tax and Gift Tax has now been made uniform. Thus, all the provisions discussed hereinabove in respect of valuation of shares in a company under the Wealth Tax Act PariMateria applies to the valuation under the Gift Tax Act.

- **Capital Transfer Act**

  In India so far there was no provision for levy of Transfer Tax on property inherited by a person ondeath. The Wealth Inheritance Act. 1989 makes a provision in this regard. This Act is in lieu of Estate Duty that has been abolished since 16.3.1985. The approach of the bills is sameto the Capital Transfer Tax of U.K. According to Section 8 Sub-section I of Wealth (Inheritance Duty) Act 1989.the value of the property will have to be determined as on the date of death in accordance with the provisions laid down in Schedule II of the Act. The Schedule II of the Act refers to Schedule III of the Wealth Tax Act, and hence valuation of shares in a company for the purpose of this Act has to be done in accordance with the discussions made out herein above."

- **Estate Duty**

  The provisions of Estate Duty have been suspended with effect from 16.3.1985 and hence the valuation of shares for the purpose being only for academic interest.

Conclusion

It has been noticed that the theory of value originated in economic literature. The said theory is of recent origin first formalisation starting with publication of Adam Smith's "Wealth of Nation" in 1876. The various, schools of thoughts subsequently evolved various doctrines on what comprised the value. Considering various dogmas attached to various theories it could be stated that the fundamental concept of value as understood in the economic sense is different from concept of value as understood by accountants in their day to day working and more so when value of shares in a company is concerned. The concept of value as applicable to shares is no different from the concept of value of any other property.After understanding "the concept of valueas understood by economists is different from concept of value as understood by accountants, it is ascertained that value of Market and Market Value have different meanings to different persons. Different viewpoints on valuations are available and each different concept and meaning of value, or market value, has different usage, that may be appropriate for a limited purpose for which the meaning is given. The concept of Market value is not of universal applicability which gives a scope of difference of opinions and give rise to different concepts. It is also ascertained that the prime reason of the shift from concept of market value to statutory value is due to this various interpretation of concept of market value. As that the legislatures are now interested in avoiding litigations concerning the various meanings that are assigned to value and market value the concept of market value is being given a go by so far as valuation of shares for fiscal purpose is concerned. The old concept is now applicable to a limited extent.The process through which value of a thing is assessed or determined is described as valuation. However, it has been noticed that the correct terminology should be appraisal and hence during the further discussions, instead of term 'Valuation of Shares', the term 'Appraisal of Shares in 'a company is used. Further, it has been identified that the process of appraisal would primarily mean identifications of interest in a property, "thestudies has also identified the manner in which interest in property could be identified. This could include identification of interest of shades in a company and approach that an appraiser may take in arriving at the conclusions.

References

Adamson A.V. and Coorey H.G. The Valuation of Shares and Business (Ed.4) Sydney, The Law Book Co. of Australasia Pty. Ltd. 1966.

American Institute of Real Estate Appraisers and Society of Real Estate Appraisers, Real Estate Appraisal Terminology? ed. Byrl N. Boyce, rev. ed. (Cambridge, Mass s Ballinger 1981), 160-161.

A Ramaiya Guide to the Companies Act, (11th Ed.) 1988.

AmbuiamVenkataraman, HA, LLB AnAiyar s Income Tax Digest of Supreme Court Cases with subject Index (1922-1982), 1982, Company Law Institute of India Pvt. Ltd.

B.W. Sutherland, CBE, FCA Principles of Share Valuation for Fiscal purposes, The Institute of Chartered Accountants of England and Wales, 1985

Cutforth A, Methods of, Amalgamation and the valuation of business for amalgamation and other purposes. London G. Bell & Sons Ltd. 1945.

E.S. Subramanyam Indian Stamp Act Law Book Do, Allahabad, 1961

Graham Benjamin and Mogolrick Charles, The Interpretation of financial Statements, pp 66-67 (Common Stock Prices and Value)

Graham B and Others Security Analysis (Ed. 4) > New York, McGrow-Hill Book Co., 1962

Hastings, Paul G The Management of Business Finance New York, D. Van Nostrams Co. 1966. Hubert M, Blalock Jr. Social Statistics, (2nd Ed.), 1972.

K U Shanbhogue, ML Maheswary& R.N. Bhandari Company Law Problems & Solutions Calcutta Study Circle on Corporate & Allied subjects, (IInd Ed.) 1988.

L.C. Goyle Law and Practice relating to Prevention of Oppression & Mismanagement in Companies, Allied Book Company.

Moon, Ronald W Business Mergers and Take-Over Bids London Gee & Co. (Pub.) Ltd. 1959. 32

ManindraNath Das Transfer of Property Act, (14th Ed.), 1982. 33

National Council of Applied Economic Research, New Delhi, Capital Market in a planned economy 1966.

Richard Ratcliff Company Cases - Company Law Institute of India Ltd. Vol. I to 68.

Real Estate Appraisal Terminology, American Institute of Real Estate Appraisers and Society of Real Estate Appraisers, Ed. Byrl N. Boyce, rev. Ed. (Cambridge, Mass# Ballinger, 1981).

Shannon Pratt Valuing a Business - The analysis and appraisal of closely held companies, 1981, SampathIyengar Law of Income Tax Vol. I to VIII, Bharat Publishing House.

Zeff Stephen, A and Keller Thomas F Financial Accounting Theory NewYork, McGraw-Hill Book Co. 1964.

Journal of Accounting and Finance
Volume 36, No. 2 · April 2022-September 2022

A Research Concerns the Determinants of Supply Chain Performance among SME's in Tirupur Textile Cluster

Prabhadevi Kannan

Abstract

The research delves at length into the determinants of supply chain performance among the SMEs in the Tirupur textile cluster, especially the garment segment. It was important to identify knowledgeable respondents who could truly depict the research situation and support the research. This does not purport to influence the study as the population members would intuitively apply the concepts and principles of cluster theory and supply chain management. In the present study,the researcher adopted a cross-sectional research design to provide a 'snap-shot' of whether the adoption of a supply chain enhances the performance of the company. The conclusions and considerations of the study dealwith how the determinants in this study of supply chain performance in an industry cluster have contributed to supply chain performance. The very fact that a combination of sorts is attempted, including internal facing and external (customer) facing dimensions, for sure will pave way for further research on these lines. The limited number of articles about this specific aspect that have been found in the literature review underlines the originality of the discussion proposed here and suggests that further research is needed to expand the empirical results to a broader spectrum of issues.

Keywords: *Supply Chain Performance, Determinants, Textile cluster, SMEs*

Introduction

Industrial clusters have been patronized over the decades as they contribute to the economic performance of the region. In other words, these are a geographical agglomeration of firms that contribute to the immediate society by way of employment generation, development of infrastructure, and so on, and other stakeholders like the government through export earnings. Many a time industrial clusters could be primarily formed due to factor input advantage or demand conditions or simply by a chance factor because of an early initiative. Supply chain management strategies are firm-specific across a network of organizations to achieve competitive advantage. Incidentally, a firm's supply chain network could be able to achieve the benefits of a cluster approach. Industrial cluster is an economic phenomenon, and the current industrial clusters mainly apply the theory related to industrial economics to research

Prabhadevi Kannan, PhD Research Scholar, Department of Commerce,Bharathiyar University, Coimbatore, Tamil Nadu, India