

NATIONAL UNIVERSITY OF SINGAPORE

NUS Business School

Department of Accounting

## **ACC3614 - VALUATION (Semester 1, 2014-15)**

### **Lecturers**

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### **Assessment Method**

Class participation	15%
Group project on equity valuation	15%
Midterm test	30%
Final examination	40%

### **Aim**

Starting from 2003, Singapore has mandated International Financial Reporting Standards (IFRS) which requires many assets and liabilities to be measured at their current value rather than historical cost. When a current market price is not available, current values must be estimated using valuation models.

This module introduces a number of standard valuation models allowed by the standards and discuss what the recommended methods in various circumstances are. We will study the models at a beginner to intermediate level.

We will mostly take the viewpoint of a financial reporting preparer. That is, we will learn how to value assets by ourselves given the necessary inputs. But we will also study cases where we have to understand and evaluate someone else's valuation. Accountants need both skills. A company accountant needs them to oversee valuations or do them herself. An auditor needs them when applying SSA545 or SSA540(R) to check that valuations were done properly.

## Objectives

On completing this module successfully, students would be able to do the following:

- Explain the economic theory behind valuation and demonstrate the main valuation techniques used in modern finance.
- Apply valuation techniques to measure the fair value of specific assets where required by Singapore FRS, with a particular focus on the valuation of financial instruments, equity, property, intangibles and the valuation issues involved in business combination and impairment tests.

## Key Areas

- Value financial instruments (FRS 32, 39, and 107), including employee stock options (FRS 102);
- Equity valuation (FRS 39, 103, and 36);
- Property appraisal (FRS 16, 17, and 40);
- Purchase price allocation (FRS 38, and 103);
- Impairment (FRS 36).

## Textbook

Catty (ed.), 2010, Wiley guide to fair value under IFRS, Hoboken NJ: Wiley

## Other Key References

Damodaran, A., 2012, Investment Valuation: Tools and Techniques for determining the value of *any* asset, 3<sup>rd</sup> edition, Hoboken, NJ: Wiley

Hitchner J. (ed.), 2011, Financial Valuation: Applications and Models, 3<sup>rd</sup> edition Hoboken, NJ: Wiley

Hull J., 2012, Options, Futures, and Other Derivatives, 8<sup>th</sup> edition (Global Edition), Upper Saddle River, N.J: Pearson/Prentice Hall.

Singapore Government Accounting Standards Council, Singapore financial reporting standards, <http://www.asc.gov.sg/frs/index.htm>

## Detailed Syllabus

1. Overview of Valuation
  - Purposes of Valuation
  - Definitions of Value
  - Approaches to valuation
  - International Valuation Standards
  - Principal Approaches to Valuation

2. Valuation of Financial Instruments
  - Bonds
  - Futures and Forward Contracts
  - Tradable stock options—Black-Scholes and binomial approaches
  - Valuation of ESOPs under FRS 102
3. Equity Valuation
  - DCF Approach
  - Relative Valuation
4. Property Valuation
  - Requirements under FRS 16 and FRS 40
  - Discounted Cash Flow Valuation
  - Comparables Method
  - Yield Method
  - Regression Method
5. Valuation in Business Combination
  - The asset approach to equity valuation
  - Valuation of Intangibles and goodwill
  - Goodwill impairment Analysis