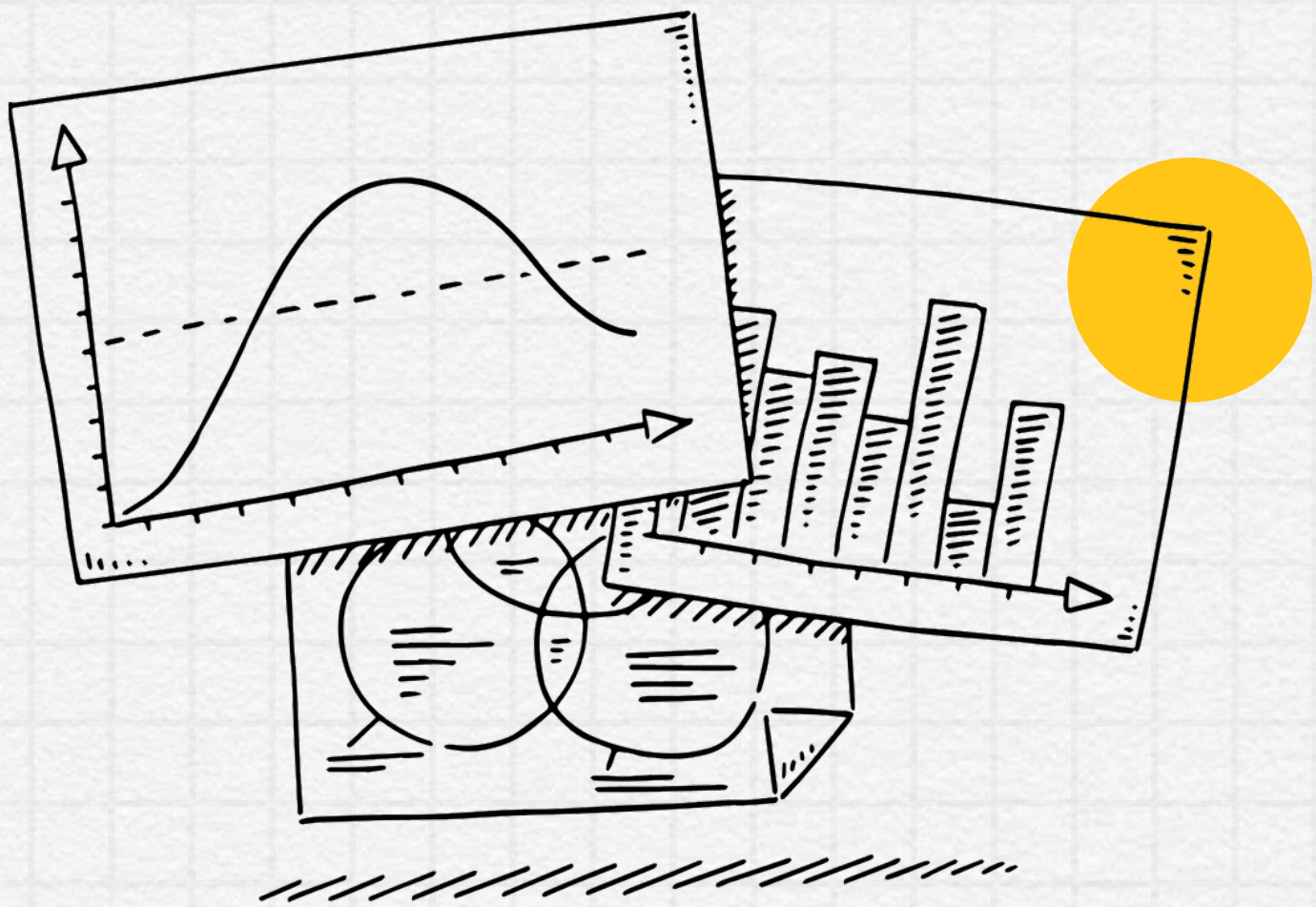
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Notes

FACE VALUE VS BOOK VALUE VS MARKET VALUE



Notes

Investing in the stock market involves understanding various **financial terms** and metrics.

Three such important terms are Face Value, Book Value, and Market Value.

These terms might initially seem **complex**, but they are crucial for making informed investment decisions.



Notes

Face Value

Face Value also known as **par value** is the original cost of the stock as stated by the issuing company in the share certificate.

In simple terms, the value at which the company first issues its shares to the **promoter** is known as the face value of the stock of that company



(A share certificate is a written document that serves as legal proof of ownership of the indicated number of shares.)

Notes

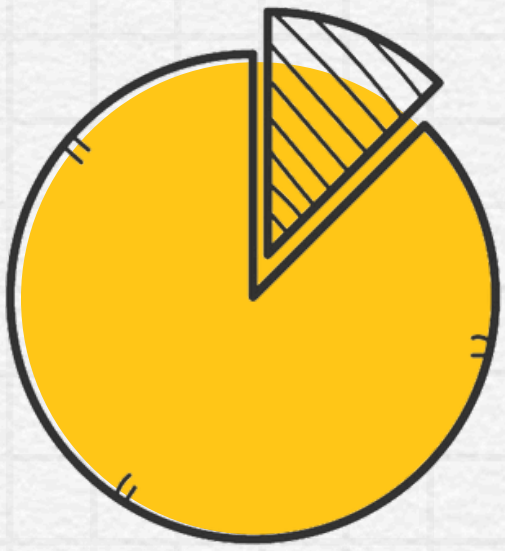
Let’s understand with an example

Let’s take a company named XYZ that wants to raise capital of Rs 1,00,000 for the first time.

To raise the capital, the company issues shares to its **promoter** at Rs 100 per share.

Therefore the face value of the stock is Rs 100.

The face value remains constant unless there is a **stock split**.



Notes

Book Value

Book Value refers to the **net asset value** of a company as indicated on its balance sheet.

It is calculated by subtracting the company's total liabilities from its total assets.

In simple terms, it represents the total value of the **company's assets** that shareholders would receive if the company were liquidated or **bankrupt**.

We get book value per share by dividing the company's total book value by the number of shares currently outstanding.

Notes

Let’s understand with an example

Let’s take the example of the company ABC which has the following:

Total Assets: Rs. 100,000
Total Liabilities: Rs 40,000
Total No. of shares outstanding: 1000

Book Value = Rs 100,000 (Total Assets) - Rs 40,000 (Total Liabilities)
= Rs 60,000

∴ Book Value Per Share = 60,000/1000 = 60

Notes

Market Value

Market Value is the **current price** at which a stock is trading on the stock exchange.

Unlike Face Value, it is highly dynamic and can fluctuate widely due to market conditions and demand and supply.

For example, if a company's stock is currently trading at ₹800 per share, this is its Market Value. It reflects the collective **perception** of the company's future prospects and **profitability**.



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Notes

The Difference

	Face Value	Book Value	Market Value
Definition	Nominal value set by issuer.	Company's assets minus liabilities per share.	Current trading price on the stock market.
Changes	Constant unless altered by share splits.	Varies with financial performance	Fluctuates with market conditions.
Determination	Set at the time of issue and does not change.	Calculated based on the company's financial statements.	Determined by the stock market through supply and demand.
Purpose	Basis for calculating bond interest and dividend payments	Reflects actual shareholder value.	Indicates what investors currently pay for a stock.

Notes

Conclusion

Understanding the face value, book value, and market value of a stock provides a clearer picture of what you're investing in.

While **face value** remains **constant**, book value and **market value** provide **deeper insights** into a company's financial health and market perception.

As an investor, knowing these values can help you make more informed decisions and potentially lead to **better investment** outcomes.



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