

SHARE VALUATION

Q.1. The Balance Sheet as at 31st March, 1995 showed the following position:

| Liabilities | Rs. | Assets | Rs. |
|-------------------------------------|------------------|-------------------|------------------|
| Share Capital : | | Debtors | 5,00,000 |
| 20,000 equity shares of Rs.100 each | 20,00,000 | Stock - in - hand | 15,00,000 |
| General Reserve | 6,00,000 | Plant | 10,00,000 |
| Profit & Loss Account | 3,50,000 | Factory Premises | 11,50,000 |
| Current Liabilities: | | | |
| Bank Overdraft | 3,00,000 | | |
| Creditors | 4,00,000 | | |
| Provision for Taxation | 5,00,000 | | |
| | 41,50,000 | | 41,50,000 |

Additional information:

- (i) Net profits of the company for the last five years before providing for taxation were as follows:
Rs.4,10,000; Rs.6,40,000; Rs.7,00,000; Rs.8,50,000; Rs.9,00,000.
- (ii) Managerial remuneration of Rs.60,000 has been charged for each year.
- (iii) The market value of the assets were as follows : Stock — Rs.15,50,000; Plant — Rs.10,40,000; Factory premises — Rs.12,83,000.
- (iv) Taxation may be considered at 50%.
- (v) Goodwill should be valued at 5 years purchase of super profits.
- (vi) Normal rate of return — 10% p.a.

On the basis of the above information, find out the intrinsic value of shares. Indicate assumptions, if any, clearly.

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Q.2. From the following Balance Sheet of J.Adams Co. Ltd. as on 31- 12 - 1994, compute the value of its equity shares by capitalization of earnings method:

| Liabilities | Rs. | Assets | Rs. |
|--|------------------|---|------------------|
| Share Capital : | | Fixed Assets at cost, less depreciation | 6,00,000 |
| Equity Shares of Rs.10 each | 5,00,000 | Current Assets | 5,75,000 |
| Reserve and Surplus | 1,50,000 | Preliminary Expenses | 25,000 |
| 10% Debentures (Issued at par on 1 - 1- 1990, redeemable at par on or before 1999) | 3,00,000 | | |
| Current Liabilities | 2,50,000 | | |
| | 12,00,000 | | 12,00,000 |

| Particulars | 31-12-1990 | 31-12-1991 | 31-12-1992 | 31-12-1993 | 31-12-1994 |
|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Sales Rs. | 9,00,000 | 11,00,000 | 14,00,000 | 8,00,000 | 16,00,000 |
| Expenses Rs. | 3,50,000 | 5,80,000 | 6,00,000 | 3,10,000 | 8,00,000 |
| Interest on Loan Rs. | 20,000 | 40,000 | 50,000 | 60,000 | 20,000 |
| Interest on Debentures Rs. | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |

It is the usual practice of the company to transfer Rs.30,000 every year to General Reserve. Assume rate of taxation at 50% and the rate of normal earnings at 12.5%. Also show the workings.

