

C.S. EXECUTIVE SHARE VALUATION ACCOUNTS (SOL.) H.W.- 2

Sol.1.

(1) Calculation of Capital Employed

Net Assets Basis	Rs.	Rs.	Net worth Basis	Rs.	Rs.
Assets					
Debtors	5,00,000		Equity Share Capital	20,00,000	
Stock in hand	15,50,000		General Reserve	6,00,000	
Plant	10,40,000		Profit & Loss Account	3,50,000	29,50,000
Factory Premises	12,83,000	43,73,000	Add: Revaluation Profit:		
Less:Outside Liabilities:			Stock Rs.	50,000	
Bank Overdraft	3,00,000		(15,50,000- 15,00,000)		
Creditors	4,00,000		Plant Rs.	40,000	
Provision for Taxation	5,00,000	12,00,000	(10,40,000- 10,00,000)		
Capital Employed		31,73,000	Factory Premises	1,33,000	2,23,000
			(12,83,000-11,50,000)		
			Capital Employed		31,73,000

(2) Calculation of Super Profit

Particulars	Rs.
Average maintainable trading profit (Rs.4,10,000 + Rs.6,40,000 + 7,00,000 + Rs.8,50,000 + Rs. 9,00,000) / 5	7,00,000
Add back managerial remuneration	60,000
	7,60,000
Less: Managerial remuneration (maximum 11% allowable under Companies Act, 1956)	83,600
Profit before Tax	6,76,400
Less: Tax 50%	3,38,200
Profit after Tax	3,38,200
Less : Normal – return 10% on Capital Employed	3,17,300
Super Profit	20,900

(3) Valuation of Goodwill

Goodwill is to be valued on the basis of 5 years' purchase of super profit. Therefore, the goodwill will be Rs.20,900 × 5 = Rs.1,04,500.

(4) Valuation of Shares under Intrinsic Value Method

Particulars	Rs.
Net assets as in (1) above	31,73,000
Goodwill as in (3) above	1,04,500
	32,77,500
Number of Shares	20,000
Value per share (Rs.32,77,500/20,000)	Rs.163.875

Assumption: No depreciation has been charged on increased value of different assets.

Sol.2. Calculation of Average Profit

Particulars	1990 (Rs.)	1991 (Rs.)	1992 (Rs.)	1993 (Rs.)	1994 (Rs.)
Sales	9,00,000	11,00,000	14,00,000	8,00,000	16,00,000
Less : Expenses	3,50,000	5,80,000	6,00,000	3,10,000	8,00,000
Profit before interest & tax (PBIT)	5,50,000	5,20,000	8,00,000	4,90,000	8,00,000
Less: Interest on Loan	20,000	40,000	50,000	60,000	20,000
Less: Interest on Debentures	30,000	30,000	30,000	30,000	30,000
Profit before tax (PBT)	5,00,000	4,50,000	7,20,000	4,00,000	7,50,000
Less : Tax @ 50%	2,50,000	2,25,000	3,60,000	2,00,000	3,75,000
Profit after tax (PAT)	2,50,000	2,25,000	3,60,000	2,00,000	3,75,000

$$\text{Average Profit} = \frac{\text{Rs.2,50,000} + \text{Rs.2,25,000} + \text{Rs.3,60,000} + \text{Rs.2,00,000} + \text{Rs.3,75,000}}{5} = \text{Rs.2,82,000}$$

$$\text{Expected Rate of Earnings} = \frac{\text{Rs.2,82,000}}{\text{Rs.5,00,000}} \times 100 = 56.4\% \quad \text{Normal Rate of Return} = 12.5\% \text{ (given)}$$

$$\text{Value Per Share} = \frac{\text{Expected Rate of Earnings}}{\text{Normal Rate of Return}} \times \text{Face Value of Share} = \frac{56.4\%}{12.5\%} \times \text{Rs.10} = \text{Rs.45.12}$$

Alternatively,

Capitalised value of the business based on earnings = Rs.2,82,000 / 12.5% = Rs.22,56,000.

$$\text{Value Per Share} = \frac{\text{Capitalised Value of Business}}{\text{Number of Equity shares}} = \frac{\text{Rs.22,56,000}}{50,000} = \text{Rs.45.12}$$

Tutorial Note: Amount transferred to reserve Rs.30,000 should not be taken into consideration of value of shares under this method.

