

Valuation of shares

Q.1. Abridged balance sheet of Rama Ltd. as on 31st March, 2009 is as follows :

Liabilities	Rs.	Assets	Rs.
Share Capital :	6,00,000	Fixed assets	3,70,000
Reserves and surplus	50,000	Current Assets	5,20,000
Bank Overdraft	10,000		
Creditors	60,000		
Provision for taxation	1,10,000		
Proposed dividend	60,000		
	8,90,000		8,90,000

The net profits of the company after deducting working expenses but before providing for taxation were as under :

Year	Rs.
2006 - 07	3,18,000
2007 - 08	3,40,000
2008 - 09	3,12,000

On 31st March, 2009, fixed assets were at Rs.4,50,000. Sundry debtors on the same date included Rs.10,000 which is irrecoverable. Having regard to the type of business, a 10% return on average capital employed is considered as reasonable. Ascertain the value of goodwill on the basis of three years purchase of annual super profits. Also calculate goodwill by capitalization of average maintainable profits. Depreciation on fixed assets is charged @ 10% per annum and the rate of tax is 30%.

Q.2. On the basis of following information, compute the value of an equity share and a preference share of both Chelsi Ltd. and Nensi Ltd. - (i) when only a few shares are sold; and (ii) when controlling shares are to be sold :

	Chelsi Ltd. (Rs.)	Nensi Ltd. (Rs.)
Profit after tax	10,00,000	10,00,000
12% Preference share capital (shares of Rs.100 each)	10,00,000	20,00,000
Equity share capital (shares of Rs.10 each)	50,00,000	40,00,000

Assume that market expectation for both companies is 15%; and 80% of the profits are distributed.