

Practice Session – Week 1

Valuation of Shares

VALUATION OF GOODWILL

Question 1

The Balance Sheet of Famous Ltd. as at 31st March, 2025 under:

Particulars	Note No.	(₹)
I. ASSETS		
(1) Non-current assets		
(a) Property, Plant and Equipment		10,92,000
(b) Financial assets (Investments in 6% Government securities – Face value ₹2,80,000)		2,24,000
(c) Other non-current assets (Shares issue expenses)		84,000
(2) Current assets		
(a) Inventories (Stock-in-trade, taken at 90% of the market value)		6,30,000
(b) Financial assets		
(i) Trade receivables (Trade debtors)		5,32,000
(ii) Cash and cash equivalents (Balances with banks)		1,12,000
Total assets		26,74,000
II. EQUITY AND LIABILITIES		
(1) Equity		
(a) Equity share capital	1	11,20,000
(b) Other equity	2	9,24,000
(2) Current liabilities		
(a) Financial liabilities		
Trade payables (total outstanding dues of creditors other than micro enterprises and small enterprises)		2,94,000
(b) Provisions (current tax)		3,36,000
Total equity and liabilities		26,74,000

Notes to Accounts (₹)

Note 1: Equity Share Capital

Particulars	₹
Authorized	
Issued, subscribed, and fully paid	
11,200 equity shares of ₹100 each	11,20,000
Total	11,20,000

Note 2: Other Equity (Reserves and Surplus)

Particulars	₹
Other reserves (General reserve)	4,20,000
Retained earnings	–
Opening balance	1,68,000
Add: Net profit after tax	3,36,000

	5,04,000
Total	9,24,000

Additional Information

- (i) The property, plant and equipment are understated by ₹6,72,000 and have suffered a further depreciation of ₹2,80,000;
- (ii) The companies doing similar business as that of Famous Ltd. are earning a market return of 10% on capital employed;
- (iii) Profits over previous 3 years have been increasing @ ₹70,000 p.a.;
- (iv) For valuation purpose, stock is to be considered at market price;
- (v) Consider 50% tax rate.

Required:

Based on the above details, compute the value of goodwill based on 3 years' purchase of super profits.

Question 2

The following is the Balance Sheet of Apex Ltd. as at 31st March, 2024:

Particulars	Amount (₹)
Assets	
Goodwill	75,000
Property, Plant and Equipment (Note: 1)	3,65,500
Other Investments	85,000
Inventories	1,50,000
Trade Receivables (Note: 2)	2,80,000
Cash and cash equivalents	83,500
Preliminary Expenses	24,500
Total	10,63,500
Equity & Liabilities	
Equity	
Equity Share Capital	5,00,000
Other Equity	
General Reserve	1,50,000
Profit & Loss Account	1,50,000
Workmen's Profit-Sharing Reserve	50,000
Workmen's Compensation Reserve	30,500
14% Debentures	1,25,000
Trade Payables	58,000
Total Other Equity	10,63,500

Note 1: Property, Plant and Equipment

Asset Name	Gross	Accumulated Depreciation	Net
Buildings	90,000	4,500	85,500
Plant & Machinery	2,50,000	37,500	2,12,500
Furniture	75,000	7,500	67,500
Total			3,65,500

Note 2: Trade Receivables

Trade Receivable	3,00,000
Less: Impairment allowance	20,000
Secured, considered good	2,80,000

Note 3

Equity Share Capital consists of 50,000 Equity Shares of ₹ 10 each.

It is given that Buildings are now worth ₹1,75,000 and Plant and Machinery is worth ₹1,85,000.

Future maintainable profit for the company after all the adjustments including tax is ₹1,25,600.

Further, during the current year, the company has earned profit before tax ₹ 86,000. Tax to be considered is 30% and depreciation to be considered as below:

Particulars	Rate of Depreciation
Building	5%
Furniture	10%
Plant & Machinery	15%

You are required to calculate the Value of Goodwill, which is 3 years' purchase of super profit. The company expects a normal return of 12% on average capital employed.

Question 3

Following is the Balance Sheet of AK Limited as on 31st March, 2024:

Particulars	Amount (₹)
Assets	
Goodwill	1,35,000
Property, Plant and Equipment (Note – 1)	5,13,000
Investment (Note – 2)	1,20,000
Trade Receivables (Note – 3)	3,50,000
Inventories	2,10,000
Cash and Cash Equivalents	85,000
Preliminary Expense	33,000
Total	14,46,000
Equity & Liabilities	
Equity	
Equity Shares (Note – 4)	5,50,000
Other Equity	
Reserve Fund	1,56,000
Profit and Loss Account	1,70,000
Workmen Compensation Fund	35,000
Workmen Profit Sharing Fund	55,000
Trade Payables	3,30,000
Other Liabilities	1,50,000
Total	14,46,000

Notes to Accounts

Note 1: Property, Plant and Equipment

Asset Name	Gross	Depreciation	Net
Buildings	2,80,000	56,000	2,24,000
Plant & Machinery	3,40,000	51,000	2,89,000
Total			5,13,000

Note 2

Investment is for replacement of Plant & Machinery.

Note 3: Trade Receivable

Particulars	₹
Gross Trade Receivables	3,90,000
Less: Reserve for Doubtful Debts	40,000
Net Trade Receivables	3,50,000

Note 4

Equity share comprises 5,500 equity shares of ₹100 each.

Further Information

A Ltd. has been operating its business for several years and is now being taken over by another company. For this purpose, you are required to value goodwill using the "Capitalisation of Maintainable Profits Method." The following additional information is provided:

(a) The profits earned by the company for the last three years were as follows:

- Year ended 31st March, 2022: ₹3,42,000
- Year ended 31st March, 2023: ₹2,97,000
- Year ended 31st March, 2024: ₹3,27,000

These figures represent profits before tax, and the tax remained consistently 30%

(b) The new company plans to operate the business using its own board of directors, eliminating the annual directors' fees of ₹12,000 paid by A Ltd.

(c) A significant increase in business volume is expected, requiring an additional rent expense of ₹18,000 per year.

(d) Values of Assets as on 31st March, 2025

- Buildings: ₹4,00,000
- Plant and machinery: ₹2,80,000

Provisions for doubtful debts are adequate, and there are no fluctuations in the values of investments or stock.

(e) The liability under the Workmen Compensation Fund amounted to ₹9,000.

(f) The expected rate of return on similar businesses is 15%.

You are required to calculate the value of goodwill based on the above information, ensuring that all workings form part of your answer. Closing capital employed may be used for your calculations.

VALUATION OF EQUITY SHARES

(a) NET ASSET APPROACH

Question 4

Following is the Balance Sheet of Rukamani Ltd. as on 31st March, 2024:

Particulars	Amount (₹)
Assets:	
(1) Non-Current Assets:	
(a) Property, Plant and Equipment (PPE)	24,00,000
(b) Financial Assets: Investment in 10% Securities	4,80,000
(2) Current Assets:	
(a) Inventories	10,00,000
(b) Trade Receivables	15,00,000
(c) Cash at Bank	4,20,000
Total	58,00,000
Equity & Liabilities:	
Equity:	
(a) Share Capital: 2,00,000 Equity Shares of ₹10 each	20,00,000
(b) Other Equity (Reserves)	15,00,000
Liabilities:	
(1) Non-current Liabilities:	
10% Debentures	15,00,000
(2) Current Liabilities:	
Trade Payables	8,00,000
Total	58,00,000

Additional information is given below:

- (i) Nominal value of investment is ₹5,00,000.
- (ii) Following assets are revalued:

Particulars	₹
Property, Plant and Equipment (PPE)	36,00,000
Inventories	11,00,000
Trade Receivables	13,50,000

- (iii) Average profit before tax of the company is ₹12,00,000 and rate of taxation being 30%.
 - (iv) Goodwill may be valued at three year's purchase of average trading profits after tax.
- Ascertain the value of each equity share under Intrinsic Value method.

Question 5

P Ltd. provides the following information as on 31.03-2024:

Equity share capital: 80,000 shares of ₹10 each, fully paid and 50,000 shares of ₹10 each, ₹4 paid.

9% Preference share capital ₹6,00,000.

General Reserve ₹1,80,000.

12% Debentures ₹5,00,000.

Assets include a non-trade investment, the market value of which is ₹2,40,000 (Book value being ₹2,80,000).

Before tax profits for last three years were ₹1,90,000, ₹2,50,000 and ₹2,80,000 respectively (including income from non-trade investment of ₹20,000 on an average).

Rate of income tax is 30%.

Fair return on capital employed in this type of business is estimated at 9% after tax.

You are required to calculate:

- The value of goodwill using 3 years' purchase of Super Profit method, and
- The value of each fully paid-up equity share under Asset Backing method.

Use closing trading capital employed for calculation of goodwill.

Question 6

The following is the Balance Sheet of ABC Ltd. as at 31st March, 2025:

Particulars	Note No.	₹ in lakhs
I ASSETS		
(1) Non-current assets		
(a) Property, plant and equipment		61.60
(b) Financial assets (Investments)		11.20
(2) Current assets		
(a) Inventories (Stock-in-trade)		22.40
(b) Financial assets		
(i) Trade receivables (Trade debtors)		11.20
(ii) Cash and cash equivalents (Cash at bank)		11.20
Total assets		117.60
II EQUITY AND LIABILITIES		
(1) Equity		
(a) Equity share capital	1	75.60
(b) Other equity	2	(36.40)
(2) Non-current liabilities		
(a) Financial liabilities		
Borrowings (18% term loan)		39.20
(b) Other financial liabilities (1,68,000, 9% cumulative pref. shares of ₹10 each)		16.80
(3) Current liabilities		

Financial liabilities		
Trade payables (Trade creditors)		22.40
Total equity and liabilities		117.60

Notes to accounts

1. Equity share capital

Particulars	₹ in lakhs
Authorized	–
Issued, subscribed, and fully paid	
4,20,000 equity shares of ₹10 each	42.00
Issued, subscribed but not fully paid	
5,60,000 equity shares of ₹10 each, ₹6 paid	33.60
Total	75.60

2. Other equity

Particulars	₹ in lakhs
Retained earnings (Deficit balance in statement of profit and loss)	(36.40)

The other pieces of information are as under:

- (i) Current cost of Property, Plant & Equipment is ₹104.16 lakhs & that of stock is ₹28 lakhs.
- (ii) Investments could fetch only ₹ 2.80 lakhs.
- (iii) 50% of the trade debtors are doubtful.
- (iv) Preference dividend was in arrear for the last 5 years.

Based on the above details, you are required to compute the value of an equity share of ABC Ltd. on net assets basis.

VALUATION OF EQUITY SHARES (b) YIELD APPROACH

Question 7

Following is the Balance Sheet of Z Ltd. as on 31st March, 2024:

Liabilities	₹ in Lakh	Assets	₹ in Lakh
1,00,000 Equity Shares of ₹10 each	10,00,000	Goodwill	5,00,000
10,000 12% Preference Shares of ₹100 each	10,00,000	Buildings	15,00,000
General Reserve	6,00,000	Plant	10,00,000
Profit and Loss Account	4,00,000	Investment in 10% Stock	4,80,000
15% Debentures	10,00,000	Stock-in-trade	6,00,000
Creditors	8,00,000	Debtors	4,00,000
		Preliminary expenses	2,20,000
		Cash	1,00,000
	48,00,000		48,00,000

Additional information are given below:

- (a) Nominal value of investment is ₹5,00,000 and its market value is ₹5,20,000.

(b) Following assets are revalued:

(i) Building	₹32,00,000
(ii) Plant	₹18,00,000
(iii) Stock-in-trade	₹4,50,000
(iv) Debtors	₹3,60,000

(c) Average profit before tax of the company is ₹12,00,000 and 12.50% of the profit is transferred to general reserve, rate of taxation being 50%.

(d) Normal dividend expected on equity shares is 8% while fair return on closing capital employed is 10%.

(e) Goodwill may be valued at three year's purchase of super profits.

Ascertain the value of each equity share under fair value method.

VALUATION OF EQUITY SHARES (c) MARKET APPROACH

Question 8

X Ltd. has EPS ₹12 and no. of shares 1,000. Its CF ₹15,000 and Sales ₹80,000. Find value per share of X Ltd. based on the data of similar other companies as provided below:

Companies	PAT (₹)	CF (₹)	Sales (₹)	MC (₹)
A	20,000	25,000	1,20,000	1,50,000
B	16,000	20,000	1,40,000	1,75,000
C	25,000	32,000	1,60,000	2,00,000
D	18,000	24,000	1,44,000	1,92,000

VALUATION OF EQUITY SHARES (d) CASHFLOW APPROACH

Question 9

Following data are provided by a Company:

Forthcoming Year 1	₹ in Lakh
Data provided:	
EBIT	700
Depreciation	120
Capex	180
Interest	60
Increase in non-cash working capital	100
Debt Capital	3,000

Further information:

Tax rate = t	25%
WACC	10%
No of equity shares	50,00,000

Find:

- (i)** NOPAT
- (ii)** CF
- (iii)** FCFF
- (iv)** Value of business based on:
 - i) CF
 - ii) FCFF
- (v)** Value of business when growth rate is 5% based on:
 - i) CF
 - ii) FCFF
- (vi)** Value per share based on FCFF when growth rate is 5%; and
- (vii)** Value per share based on FCFE when constant growth rate is 5%.

Economic Value Added (EVA)

Question 10

Saurav Ltd. provides you with the following data based on which you are required to calculate the Economic Value Added (EVA):

Equity share capital (42 crore equity shares of ₹10 each)	₹420 crore
15% preference share capital (1.40 crore shares of ₹100 each)	₹140 crore
15% debentures (11.20 crore debentures of ₹100 each)	₹1,120 crore
Income tax rate	30%
Beta	1.5
Market rate of return	15.5%
Equity Market risk premium	9%
Financial leverage	1.5 times
Land and building (held as investment)	₹140 crore

Question 11

BRHAMAPUTRA Ltd. is interested to calculate Economic Value Added (EVA) of the Company. You are provided the following information:

Share price at the beginning of the year was ₹200 per share and face value of each share is ₹10. Last year EVA was ₹250 crores. From the trend of share price it is likely that an increase EVA from 26% to 50% leads to 25% increase in the share price. Any increase up to 25% leads to no change and an increase beyond 50% leads to 30% increase in the share price as compared to that in the beginning of the year. There was no issuance of fresh equity shares during the year.

12% Debt capital	₹2,000 crores
Equity share capital	₹500 crores
Reserve and surplus	₹7,500 crores
Capital employed	₹10,000 crores
Risk-free rate	6%
Beta factor	1.50
Market rate of return	15%
Operating profit after tax	₹2,100 crores
Tax rate	30%

Calculate Economic Value Added (EVA) & Market Value Added (MVA) of BRHAMAPUTRA Ltd.

Question 12

ALAKANANDA Ltd., a listed company, seeks to evaluate its financial performance using the Economic Value Added (EVA) metric for the year ended March 31st, 2025. The following financial and market data are available:

I. Income Statement Extract (for the year 2024-25)

Particulars	Amount (₹ in Lakhs)
Net Sales	4,000
Operating Expenses (excluding Depreciation, Interest and R&D)	1,800
Depreciation (Accounting)	400
Research & Development (R&D) Expensed	200
Interest on 10% Term Loan	300
Tax @ 30%	390
Profit After Tax (PAT)	910

II. Balance Sheet Extract (as on 31.03.2025)

Particulars	Amount (₹ in Lakhs)
Equity Share Capital (₹10 paid up)	500
Other Equity	1,500
Total Equity	2,000
10% Term Loan	1,000
Non-Interest-Bearing Current Liabilities (NIBCL)	200
Total Liabilities and Equity	3,200
Net Fixed Assets	1,300
Net Working Capital	1,700
Total Assets	3,200

III. Additional Information:

1. Cost of Capital Data:

Particulars	Details
Risk-free Rate (R_f)	6%
Market Return (R_m)	14%
Beta (β) of the company	1.25
Tax Rate	30%

- The entire R&D expenditure of ₹200 Lakhs is considered a capital investment (Asset) with an estimated economic life of 4 years. The closing balance of the capitalised R&D asset should be included in the invested capital. (Assume the opening balance of the R&D asset was Nil).
- The Economic Depreciation (true decline in value of fixed assets) for the year is ₹300 Lakhs, as against the accounting depreciation of ₹400 Lakhs.

Required:

Calculate the Economic Value Added (EVA) for ALAKANANDA Ltd. for the year ended March 31st, 2025.

Question 13

The Income Statement and Balance Sheet of BQ Ltd. is given below:

INCOME STATEMENT

Particulars	₹ in Lakhs	₹ in Lakhs
Sales	12,500	
Total Income		12,500
Less:		
Manufacturing cost	3,000	
Administration cost	1,600	
Selling and Distribution cost	700	
Depreciation	400	<u>5,700</u>
EBIT		6,800
Less: Interest		300
EBT		6,500
Less: Tax (30%)		1,950
PAT		4,550
EPS		45.5
P/E ratio		3

BALANCE SHEET

LIABILITIES	₹ in Lakhs	ASSETS	₹ in Lakhs
Equity Capital (₹10 share)	1,000	Buildings	1,800
Reserve Surplus	700	Machinery	1,000
Term loan	1,300	Stock	300
Payables	600	Debtors	500
Provisions	260	Bank	260
TOTAL	3,860	TOTAL	3,860

The cost of equity and cost of debt is 14% and 8% respectively. The company pays 30% corporate tax. From the information given you are required to calculate the EVA.

Value Added Statement (VAS)

Question 14

Maahi Ltd. has the following financial data for the year ending 31st March, 2024:

Particulars		₹ in Lakhs
(i)	Sales Revenue	1,000
(ii)	Purchase of Raw Materials	530
(iii)	Total Stock of Raw Materials, WIP and Finished Goods:	
	Opening Stock	60
	Closing Stock	90
(iv)	Printing and Stationery	35
(v)	Auditor's Fees	5
(vi)	Rent, Rates and other Expenses	10
(vii)	Wages & Salaries	100
(viii)	Depreciation	30
(ix)	Interest	20
(x)	Taxes	25
(xi)	Dividend	110
(xii)	Retained Earnings for the year	165

Prepare a Value Added Statement for Maahi. Ltd. for the year ended 31st March, 2024.

Question 15

The following are the balances in the account statements of X Ltd. for the year ended 31st March, 2021:

Particulars	₹ '000
Turnover	4,600
Plant and machinery (net)	2,160
Loss on sale of machinery	150
Depreciation on plant and machinery	400
Dividends to ordinary shareholders	292
Debtors	390
Creditors	254
Total stock of all materials, WIP and finished goods:	
Opening stock	320
Closing stock	400
Raw materials purchased	1,250
Cash at bank	196
Printing and stationery	44
Auditor's remuneration	56
Retained profits (opening balance)	1998
Retained profits for the year	576
Rent, rates and taxes	330
Other expenses	170
Ordinary share capital issued	3,000
Interest on borrowings	80

Income-tax for the year	552
Wages and salaries	654
Employees state insurance	70
P.F. contribution	56

Prepare a Value Added Statement for the company for the year 2021-22.