

Systematic Studies For Professionals
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C.A. INTER

Time 1Hour

Valuation of Goodwill

Max Marks: 36

Ques.1 Negotiation is going on for transfer of X Ltd. on the basis of the Balance Sheet and the additional information as given below:

Balance Sheet of X Ltd. as on 31st March, 2018

Liabilities	Amount	Assets	Amount
Share Capital	10,00,000	Goodwill	1,00,000
[` 10 fully paid up share]		Land & Building	3,00,000
Reserve and Surplus	4,00,000	Plant and Machinery	8,00,000
Sundry Creditors	3,00,000	Investment	1,00,000
		Stock	2,00,000
		Debtors	1,50,000
		Cash and Bank	50,000
	17,00,000		17,00,000

Profit before tax for 2017-18 amounted to `6,00,000 including `10,000 as interest on investment. However, an additional amount of `50,000 p.a. shall be required to be spent for smooth running of the business.

Market values of land & Buildings and Plant & Machinery are estimated at `8,00,000 and `8,00,000 respectively. In order to match the above figures further depreciation to the extent of `40,000 should be taken into consideration. Income tax rate may be taken at 50%.

Salary of `1,50,000 paid to employees in the year but wrongly debited to employees and debited to creditors.

Return on capital at the rate of 20% before tax may be considered normal for this business at the present stage.

For the purpose of determining the rate of return, profit for this year after the aforesaid adjustments may be taken as expected average profit. Similarly, average trading capital employed is also to be considered on the basis of the position in this year.

It has been agreed that 4 years' purchase of super profit shall be taken as the value of goodwill for the purpose of the deal.

You are requested to calculate the value of goodwill of the company.

[12]

Ques.2 Given below the balance sheet of SSP Ltd as on 31.12.2003.

Balance sheet

Liabilities	'000 `	Assets	'000 `
Share Capital	50,00	Sundry Fixed Assets	72,00
Reserve	32,00	Non – trade investments	12,00
P & L A/c	3,00	Stock	7,80
Sundry Creditors	8,20	Debtors	6,20
Proposed Dividend	10,00	Cash & Bank	5,20
	1,03,20		1,03,20

Other Information:

(1) Profit before tax and other relevant information:

[‘000’]

Year	PBT	Provision for Gratuity Required	Gratuity paid	Loss of uninsured stock
1999	42,00	220	---	---
2000	39,00	230	137	62
2001	44,00	250	82	---
2002	42,00	260	112	---
2003	37,00	270	120	---

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- (2) Tax – rate 51%.
 (3) Non – trade investments fetched income of 12%.
 (4) Expected tax – rate 45%.
 (5) The Company Purchased a machinery of Rs.5,00,000 on 1st July 2000 but wrongly treated as ordinary purchase. It is subject to depreciation @20% p.a. on WDV basis.
 (6) The Company sold a machinery with book value of Rs.3,00,000 on 1st October 2002 for Rs.1,80,000 but wrongly credited to Sales a/c.
 (7) The company wants to switch over towards maintaining gratuity provision on actuarial calculation rather than accounting on payment basis;
 (8) Normal rate of return may be taken as 15%.

Find out value of goodwill. It may be assumed that super profit, if any, is maintainable for 5 years, 20% should be the appropriate discount factor. [12]

Ques.3 The Balance Sheets of R Ltd for the years ended on 31.3.2010, 31.3.2011 and 31.3.2012 are as follows:

Liabilities	31.3.2010	31.3.2011	31.3.2012
3,20,000 Equity Shares of ` 10 each fully paid	32,00,000	32,00,000	32,00,000
General Reserve	24,00,000	28,00,000	32,00,000
Profit and Loss Account	2,80,000	3,20,000	4,80,000
Creditors	12,00,000	16,00,000	20,00,000
	70,80,000	79,20,000	88,80,000

Assets	31.3.2010	31.3.2011	31.3.2012
Goodwill	20,00,000	16,00,000	12,00,000
Building and Machinery (Less: Depreciation)	28,00,000	32,00,000	32,00,000
Stock	20,00,000	24,00,000	28,00,000
Debtors	40,000	3,20,000	8,80,000
Bank Balance	2,40,000	4,00,000	8,00,000
	70,80,000	79,20,000	88,80,000

Actual valuation was as under:

Particulars	31.3.2010	31.3.2011	31.3.2012
Building and Machinery	36,00,000	40,00,000	44,00,000
Stock	24,00,000	28,00,000	32,00,000
Net Profit (including opening balance) after writing off depreciation and goodwill, tax provision and transfer to General Reserve	8,40,000	12,40,000	6,40,000

Company Purchased a machinery of Rs.5,00,000 on 1st July 2010 but wrongly treated as ordinary purchase. It is subject to depreciation @20% p.a. on WDV basis.

Salary of ` 1,50,000 paid to employees in 2010-11 but wrongly debited to employees and included in debtors.

Capital employed in the business at market values at the beginning of 2009-2010 was ` 71,20,000, which included the cost of goodwill. The normal annual return of Average Capital employed in the line of business engaged by R Ltd. is 11%.

The balance in the General Reserve account on 1st April, 2009 was ` 20 lakhs.

The goodwill shown on 31.3.2010 was purchased on 1.4.09 for ` 20,00,000 on which date the balance in the Profit and Loss Account was ` 2,40,000.

Find out the average capital employed each year.

Goodwill is to be valued at 5 years purchase of super profits (Simple average method). Also find out the total value of the business as on 31.3.2012. [12]