

Note: All questions are compulsory.

Question 1(9 marks)

Total value of business as on 31.03.2015 (2 marks)

	<i>` in thousands</i>
Closing Capital Employed as on 31.3.2015	16,960
Less: Goodwill appearing in the Balance Sheet as purchased Goodwill	(2,400)
Add: Goodwill	<u>8,225</u>
Total Value of Business	<u>22,785</u>

Working Notes:

1. Calculation of Average Capital Employed (3 marks)

	31.3.2013 <i>` in thousands</i>	31.3.2014 <i>` in thousands</i>	31.3.2015 <i>` in thousands</i>
Purchased Goodwill*	4,000	3,200	2,400
Tangible Assets	7,200	8,000	8,800
Inventories	4,800	5,600	6,400
Trade Receivables	80	640	1,760
Cash & Cash Equivalents	<u>480</u>	<u>800</u>	<u>1,600</u>
	16,560	18,240	20,960
Less: Trade payables	<u>(2,400)</u>	<u>(3,200)</u>	<u>(4,000)</u>
	14,16	15,04	16,96
Closing Capital	0	0	0
Add: Opening Capital Employed	<u>14,640</u>	<u>14,160</u>	<u>15,040</u>
Total	<u>28,800</u>	<u>29,200</u>	<u>32,000</u>
Average Capital Employed	<u>14,400</u>	<u>14,600</u>	<u>16,000</u>

*Since the goodwill has been purchased, it is taken as a part of Capital employed. However, writing off of the goodwill is an extra-ordinary item, therefore not considered while calculating Future Maintainable Profit.

2. Valuation of Goodwill (2 marks)

(i) Future Maintainable Profit

	31.3.2013 <i>` in thousand</i>	31.3.2014 <i>` in thousands</i>	31.3.2015 <i>` in thousands</i>
	3		

	Future Maintainable Profit	1,680	2,480	3,280
	Less : Opening Profit	(480)	(560)	(640)
	Add: Appreciation of closing inventory	800	800	800
	Less: Appreciation of opening inventory	-	(800)	(800)
	Add: Transferred to General Reserve	800	800	800
	Goodwill written off		800	800
		<u>2,800</u>	<u>3,520</u>	<u>4,240</u>
	Less: Normal Return @ 12.5% on ACE	<u>(1,800)</u>	<u>(1,825)</u>	<u>(2,000)</u>
(ii)	Super Profit	1,000	1,695	2,240

(iii) Average super profit =
 $(1000+1695+2240)/3 = 1645$ thousands (1 marks)

(iv) Value of Goodwill at five years' purchase

= ` 1,645 thousands \times 5 = ` 8,225 thousands (1 mark)

Question 2(9 Marks)

Market Share of Agile Ltd. (2 marks)

Calculation of Last year's market share = $100\% - 63\% = 37\%$

Increase or decrease in market share of other players $[0.25 + (.25 \times 150\%) - 2.5/5] = 0.125\%$ i.e. increase in others' market share every year over the period of 5 years. Hence, market share of Agile Ltd. is expected to decrease by 0.125% every year over the period of 5 years, from the current level of 37%.

Brand Valuation under Market Approach (7 marks)

Year	Market Size (` in Crore)	Market Share of Agile Ltd.	Market Share (` in Crores)	Expected Profit (` in Crores)	Discount Factor	Discounted Cash Flow (` in Crores)
1	$7500 \times 109\% = 8,175$	36.875%	3014.53	@ 10% = 301.45	0.909	274.02
2	$8,175 \times 109\% = 8910.75$	36.75%	3274.70	@ 13% = 425.71	0.826	351.64
3	$8,910.75 \times 109\% = 9712.72$	36.625%	3557.28	@ 18% = 640.31	0.751	480.87
4	$9,712.72 \times 109\% = 10,586.86$	36.5%	3864.20	@ 23% = 888.77	0.683	607.03

5	10,586.86 x 109% =	36.375%	4197.56	@28% =	0.621	729.87
	11,539.68			1,175.32		
	Brand Value					2,443.43

Brand Value of Agile Ltd. under Market Oriented Approach is 2,44 3.43 crores.

Question 3 (16 Marks)

Balance sheet of XY Ltd.

As on 31st March ,2015 (3 marks)

Particulars	Note No.	(Rs.)
I Equity and Liability		
1. Shareholders fund		
a) Share capital	1	927.50
b) Reserves and Surplus	2	2060.41
2. Non –Current Liabilities		
Long term borrowings	3	65.00
3. Current liabilities		
Trade payable	4	240.00
Total		<u>3,292.91</u>
II Assets		
(1)Non-current Assets		
(a) Fixed Assets		
Tangible Assets	5	1,377
(2) Current Assets		
a) Inventories	6	599
b) Trade receivables	7	615
c) Cash & Cash equivalents	8	<u>701.91</u>
Total		<u>3,292.91</u>

Notes to Accounts

		(Rs.in lacs)	(Rs. In lacs)
1.	Share Capital (1 marks)		
	Authorized share capital		
	70lacs Equity shares @Rs.10 each		700
	4 lacs 15% Preference shares @Rs.100each		400
			<u>1,100</u>
	Issued share capital		
	52.75 lacs Equity Shares of Rs.10each	527.50	
	4lacs 15% Preference shares of 100 each	<u>400.00</u>	927.50
	(Out of the above 51.75 lacs Equity shares and 4 lacs Preference shares are issued for consideration other than cash)		
2.	Reserve and surplus(1/2 marks)		
	Capital Reserve (W.N.1)	740.00	

	Securities Premium (W.N.5)	1,328.50	
	Profit and Loss A/c(Incorporation expenses)	(8.09)	2,060.41
3.	Long Term Borrowings(1/2 mark)		
	15% Debenture of Rs.100 each		
	X Ltd.	41.67	
	Y Ltd.	<u>23.33</u>	65.00
4.	Trade payable(1/2mark)		
	X Ltd.	165.00	
	Y Ltd.	<u>75.00</u>	240.00
5.	Tangible assets(1/2 mark)		
	Land & Building		
	X Ltd.	517.00	
	Y Ltd.	<u>330.00</u>	847.00
	Plant & Machinery		
	X Ltd.	310.00	
	Y Ltd.	<u>220.00</u>	<u>530.00</u>
			<u>1,377.00</u>
6.	Inventories(1/2 mark)		
	X Ltd.	345.00	
	Y Ltd.	<u>254.00</u>	599.00
7.	Trade Receivable (1/2 mark)		
	X Ltd.	345.00	
	Y Ltd.	<u>270.00</u>	615.00
8.	Cash and Cash equivalents(1 mark)		
	X Ltd.(W.N.2)	397.00	
	Y Ltd.(W.N.2)	<u>303.00</u>	700.00
	Received from subscribes of shares	10.00	
	Less : Incorporation expenses paid	<u>(8.09)</u>	<u>1.91</u>
			<u>701.91</u>

Note:As per AS 26 preliminary expenses are charged to Profit and Loss account in the year in which it is incurred .Accordingly , the treatment for incorporation expense has been done.

Working Note

1. Calculation of Capital on amalgamation (3 marks)

		(Rs. In lacs)		
		X Ltd.		Y Ltd.
Assets taken over:				
Land and Building	(470 x 110%)	517		330
Plant and Machinery		310		220
Inventory		345		254
Trade receivables		345		270
Cash and Bank(W.N.2)		<u>397</u>		<u>303</u>
		1,914		1,377
Less :Liabilities taken over:				
13% Debentures(W.N.3)	41.67		23.33	
Trade payables	<u>165.00</u>	<u>(206.67)</u>	<u>75.00</u>	<u>(98.33)</u>
Net Assets taken over		1707.33		1,278.67
Less :Purchase consideration (W.N.4)		<u>(1,400)</u>		<u>(846)</u>
Capital Reserve		<u>307.33</u>		<u>432.67</u>
Total capital reserve (307.33 + 432.67) =740.00 lacs				

2. Calculation of Cash and Cash Equivalents(1 mark)

	X Ltd.	Y Ltd.
	Rs. in lacs	Rs. in lacs
Balance as per Balance Sheet	355.00	251.00
Less: Payment for unsecured loans	(25.00)	-
Add: Receipt from sale of investments	<u>67.00</u>	<u>52.00</u>
	<u>397.00</u>	<u>303.00</u>

3. Calculation of 15% Debentures issued by XY Ltd. (1 mark)

	X Ltd.	Y Ltd.
	Rs. in lacs	Rs. in lacs
$50 \times \frac{12.5}{15}$	41.67	
$28 \times \frac{12.5}{15}$		23.33

4. Calculation of Purchase consideration (On Payment Basis) (2 marks)

		(Rs.In lacs)	
		X Ltd.	Y Ltd.
(1)	15%Preference Shares: (4.20/3)x2 =2.80 lacs shares@125 each (1.80/3)x2=1.20lacs shares @125 each	350	150
2.	Equity Shares: (4 x 7,50,000) = 30,00,000 equity shares @Rs.35 each (3 x 7,50,000) = 21,75,000 equity shares @Rs.32 each	1050	696
		<u>1,400</u>	<u>846</u>

5. Calculation of Securities Premium(1 mark)

	Rs. In Lacs
15% Preference Shares issued at premium of Rs. 25 each (4lacs x Rs.25 each)	100
Equity shares issued to – X Ltd.(30 lacs x Rs. 25 each)	750
Y Ltd. (21.75 lacs x Rs. 22 each)	<u>478.50</u>
	<u>1328.50</u>

Question 4(16 Marks)

Balance Sheet of A Ltd. (after absorption of B Ltd.) as on 31st March,2015 (2 marks)

Particulars	Note No.	(Rs.)
I Equity and Liability		
4. Shareholders fund		
a) Share capital	1	49,73,950
b) Reserves and Surplus	2	7,56,040
5. Non –current liabilities		
Long term borrowings		8,00,000
<u>Current liabilities</u>		<u>9,80,000</u>
Total		<u>75,09,990</u>
II Assets		

<u>Non-current Assets</u>		
Fixed Assets		
Tangible Assets(Rs.30,50,000+ Rs.7,30,000)		37,80,000
<u>Current Assets</u>		
a) Inventories		13,90,000
b) Trade receivables		17,20,000
c) Cash and Cash equivalents		<u>6,19,990</u>
		<u>75,09,990</u>

Notes to Accounts: (2 marks)

		Rs.	Rs.
1.	<u>Share Capital</u>		
	4,97,395 Equity Shares of Rs.10 each fully paid (out of which 47,395 shares were allotted to vendors for consideration other than cash)		49,73,950
2.	<u>Reserves and surplus</u>		
	General Reserve	4,46,000	
	Profit and loss account	2,38,000	
	(Rs.6,34,000- Rs.3,60,000-Rs. 36,000)		
	Securities premium reserve (47,395 shares x Rs.1.52)	<u>72,040</u>	7,56,040

Working Notes:

(1) Computation of Net Assets(excluding inter-company investments) (2 marks)

	A Ltd.	B Ltd.
	Rs.	Rs.
Total Assets		
Assets Excluding invest	57,84,000	20,50,000
Dividend receivable	_____	<u>72,000</u>
(A)	<u>57,84,000</u>	<u>21,22,000</u>
External Liabilities		
Current Liabilities	6,00,000	3,80,000
Proposed dividend	3,60,000	-
Dividend distribution tax@10%	36,000	-
10% Debentures	_____	<u>8,00,000</u>
(B)	<u>9,96,000</u>	<u>11,80,000</u>
Net Assets(A) –(B)	<u>47,88,000</u>	<u>9,42,000</u>

Note: (1) **Dividend distribution tax has been calculated without grossing up.**

- (2) Since the Preference Shares of B Ltd. Do not have priority over the payment of capital and dividend ,they have to be treated at par with the equity shares .Both types of shares have the same paid up value.

(2). In view of the above , the proration of shareholding in B Ltd. Is worked out , as follows: **(2 marks)**

(a) A Ltd. in B Ltd.

$$\frac{\text{Number of shares held by B Ltd.}}{\text{Total number of Equity and Preference Shares of B Ltd.}} = \frac{30,000}{1,00,000 + 50,000} = \frac{1}{5}$$

(a) B Ltd. in A Ltd.

$$\frac{\text{Number of shares held by B Ltd.}}{\text{Total number of Equity A Ltd.}} = \frac{90,000}{4,50,000} = \frac{1}{5}$$

(3) Calculation of intrinsic value of shares: (2 marks)

Let 'a' be the intrinsic value of shares of A Ltd. And 'b' be the intrinsic value of Shares of B Ltd.

$$\text{Now, } a = \text{Rs.}47,88,000 + 1/5 \times b$$

$$b = \text{Rs.}9,42,000 + 1/5 \times a$$

By substituting the value of a in b, we get

$$b = \text{Rs.}9,42,000 + 1/5(\text{Rs.}47,88,000 + 1/5 \times b)$$

$$b = \text{Rs.}9,42,000 + 9,57,600 + b/25$$

$$\frac{24b}{25} = \text{Rs.}18,99,600$$

$$b = \frac{\text{Rs.}18,99,600 \times 25}{24}$$

$$b = \text{Rs.}19,78,750$$

$$a = \text{Rs.}47,88,000 + \frac{19,78,750}{5} = \text{Rs.}51,83,750$$

$$\text{Intrinsic value of shares of A Ltd.} = \frac{\text{Rs.}51,83,750}{4,50,000} = 11.52$$

$$\text{Intrinsic value of shares of B Ltd.} = \frac{\text{Rs.}19,78,750}{1,00,000 + 50,000} = \text{Rs.}13.19$$

(4) Calculation of Purchase Consideration : (2 marks)

No. of shares held by outside shareholders of B Ltd.

$$= 1,00,000 - 30,000 + 50,000 = 1,20,000$$

Intrinsic value of shares = 1,20,000 x Rs. 13.19 per share

$$= 15,82,800$$

Shares to be issued on the basis of Intrinsic value of shares

$$= \frac{\text{Rs.}15,82,800}{\text{Rs.}11.52} = 1,37,395.83 \text{ shares}$$

Less : Shares already held by A Ltd. = 90,000.00 shares

Number of shares to be issued = 47,395.83 shares

(5) Total Purchase price (1 mark)

	Rs.
Additional shares in A.Ltd.(47,395 shares of Rs.11.52)	5,45,990
Cash for fractional shares(0.83 x Rs.11.52)	<u>10</u>
Value of 30,000 shares already held by A Ltd.	5,46,000
(30,000 shares x Rs.13.19)	<u>3,96,000*</u>
Total	<u>9,42,000</u>

*Approximate figure has been considered.

(6) General Reserve (1 mark)

	Rs.
As per balance sheet	3,50,000
Add: Appreciation in the of shares held B Ltd.	
(Rs.3,96,000 –Rs.3,00,000)	<u>96,000</u>
Closing balance	<u>4,46,000</u>

(7) Bank Balance(2 marks)

		A Ltd.	B Ltd.
		Rs.	Rs.
As per balance sheet		6,24,000	3,20,000
Dividend received		<u>-</u>	<u>72,000</u>
		6,24,000	3,92,000
Less : Dividend Payment	3,60,000		
Dividend tax @10%	36,000		
Cash for fraction shares	<u>10</u>	<u>(3,96,010)</u>	<u>-</u>
Total bank balance		<u>2,27,990</u>	<u>3,92,000</u>
			<u>6,19,990</u>
