

valuation of goodwill of shares.

valuation of goodwill

Methods of valuation of goodwill:-

i) Average profit method:-

a) simple average:-

Eg:-

Years	Profit
2010	60000
2011	70000
2012	80000
2013	100000
2014	90000

$$\begin{aligned} \text{valuation of goodwill} &= \frac{60000 + 70000 + 80000 + 100000 + 90000}{5} \\ &= ₹80000 \end{aligned}$$

ii) weighted average method:

Eg:-

years	profit	weight	product
2010	60000	1	60000
2011	70000	2	140000
2012	80000	3	240000
2013	100000	4	400000
2014	90000	5	450000
			<u>1290000</u>

$$\begin{aligned} \text{value of goodwill} &= \frac{12,90,000}{15} \\ &= ₹86000 \end{aligned}$$

NO Negative Returns. - Super profit will →

Goodwill Nil.

1) Super profits method

Step I:- Average profits - simple or weighted

Step II:- Future maintainable profit (FMP)

(After tax profits)

FMP = Average profits + future adjustments - investment income on non-trade investments

* Non trade investment means not related to business. For eg:- investment in govt. securities, shares, debentures, bonds etc.

Step III: capital employed = Assets - Liabilities

(Excluding share capital & misc exp) reserves & surplus

* investments which are non-trade are to be excluded while calculating capital employed for goodwill.

Step IV:- Average capital employed = $\frac{\text{opening capital employed} + \text{closing capital employed}}{2}$

Step V:- Expected rate or normal rate of return = Rate of return or cost of capital or return on investment or dividend rate given in the question.

Step VI: Expected return = Step IV or Step III x Step V

Step VII: Super profit = Step II - Step VI

Step VIII: Goodwill = Super profits x No. of years of purchase

valuation of shares:

Methods of valuation of shares:

① Net Assets method or Assets backing

<u>Assets</u>	
Goodwill as calculated.	
<u>Assets</u>	
Fixed Assets: Agreed value or book value	xxx
Investments: * Trade ^{or} non-trade (Market value) or (book value)	xxx
Current assets: Agreed value or book value	xxx
	xxxx

(-) Liabilities (outside): Loans:- secured/unsecured	(xxx)
current liabilities & provision	(xxx)
	xxx

(-) Amount payable to preference shareholders

① preference share capital	xxx
② preference dividend if arrears	xx
	xxx
Net Assets available to equity shareholders	xxx

value per share = $\frac{\text{Net assets available to equity shareholders}}{\text{No. of equity shares.}}$
 (fully paid) = ₹ _____ per share.

value per share = $\frac{\text{value per fully paid shares - unpaid amount}}{\text{(partly paid)}}$

② Yield method:-

on the basis of dividend on the basis of earning capacity/
Expected earning.

Step I:- Expected earnings

future maintainable profits xxx

Add:- Non-trading income xx

xxx

Less:- Preference dividend xx

* expected Tfr. to Res xx

Expected Tfr. to fund. xx (xxx)

Estimated Amount of

future dividend xxx

Step I:-

future maintainable profits xx

Add:- Non-trading income xx

Less:- Tax on above (xx)

Less:- Preference dividend (xx)

Earnings available for xx

appropriation

Step II: Expected rate of dividend

Expected rate of

$$\text{dividend} = \frac{\text{profit avl. for eq. dividends}}{\text{paid up eq. cap}} \times 100$$

Step II: Expected rate of earnings

Expected rate of

$$\text{earnings} = \frac{\text{Expected earning}}{\text{paid up equity capital}} \times 100$$

Step III: Normal rate of dividend

$$= \frac{\text{dividend in ₹}}{\text{market price}} \times 100$$

Step III: None

Step IV: value per share =

$$\frac{\text{Expected rate of dividend}^{\text{d}}}{\text{Normal rate of dividend (given in question)}} \times \text{paid up value per share}$$

Step IV: value per share =

$$\frac{\text{Expected rate of earnings}}{\text{Normal rate of earnings (given in question)}} \times \text{paid up price per share}$$

capitalization of earnings

capitalised value of earnings

$$= \frac{\text{Expected earnings}}{\text{Normal rate of return}} \times 100$$

$$\text{value per share} = \frac{\text{capitalised value of earnings}}{\text{paid up cap}} \times \text{paid up value per share}$$

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⑤ fair value methods = net assets method +

yield method

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FINAL ACCOUNTS OF BANKING CO.

Form A

Balance sheet of _____

Balance sheet as on 31st March _____ year

('000 omitted)

particulars	Sch NO.	As on 31.3... (current year)	As on 31.3... (previous yr)
capital & liabilities			
capital	1		
Reserves or surplus	2		
Deposits	3		
Borrowings	4		
other liabilities or provision	5		
Total			
Assets			
Cash or balance with RBI	6		
Balances with banks or money at call or short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
other Assets	11		
Total			
contingent liabilities	12		
Bills for collection.			



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Form B

Profit & Loss Account for the year ended 31st March (Year)

(000's omitted)

particulars	sch No.	Year ended 31.3... (CY)	Year ended 31.3... (CY)
INCOME			
Interest earned	13		
Other income	14		
Total			
EXPENDITURE			
Interest expended	15		
Operating expense	16		
Provisions & contingencies			
Total			
Profit / Loss			
Net profit / (Loss) for the year			
profit / (Loss) brought forward			
Total			
Appropriations:-			
Transfer to Statutory Reserves			
Transfer to other Reserves			
Transfer to Govt / Proposed dividend			
Balance carried over to Bal. sheet			
Total			

Schedules

Schedule 1: - capital.

	As on 31.3. (current)	As on 31.3. (previous)
I. For Nationalised Banks capital (fully owned by central govt.)		
II. For Banks Incorporated outside India capital (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head.) Amount of deposit kept with RBI under section 11(2) of Banking Regulation Act 1949. Total		
III. For other banks:		
Authorized capital		
_____ shares of ₹ _____ each.		
Issued capital		
_____ shares of ₹ _____ each		
Subscribed capital		
_____ shares of ₹ _____ each		
called-up shares		
_____ shares of ₹ _____ each		
less: unpaid calls.		
Add: - Forfeited shares		

Schedule 2: - Reserves & Surplus.

particulars	Ason 31.3. (current)	Ason 31.3. (previous)
<u>I. Statutory Reserves</u>		
opening balance		
Additions during the Year		
deductions during the Year		
<u>II. Capital Reserves</u>		
opening balance		
Additions during the year.		
deductions during the year.		
<u>III. Share premium</u>		
opening balance		
Additions during the year		
Deductions during the Year.		
<u>IV. Revenue & other Reserves</u>		
opening balance		
Additions during the year.		
deductions during the year		
<u>V. Balance in the profit & loss A/c</u>		
Total (I + II + III + IV + V)		

Schedule 3: - Deposits

particulars	Ason 31.3. (current)	Ason 31.3. (previous)
<u>A. I. Demand deposits</u>		
(i) from Banks		
(ii) from others.		
<u>II. Savings Bank Deposits</u>		
<u>III. Term deposits</u>		
(i) from Banks		
(ii) from others		
Total (I + II + III)		

- B. (i) deposits of Branches in India
 (ii) deposits of branches outside India
 Total.

Schedule 4 - Borrowings.

As on 31.3... As on 31.3...
 (Current) (Previous)

particulars

- I. Borrowings in India
 - (i) Reserve Bank of India
 - (ii) other Banks
 - (iii) other institutions or agencies.
- II. Borrowings outside India.
- Total (I+II)
- Secured borrowings included in I & II above - ₹ _____

Schedule 5 - Other liabilities or provisions.

As on 31.3... As on 31.3...
 (Current) (Previous)

particulars

- I. Bills payable
- II. Inter office adjustments (Net)*
- III. Interest Accrued
- IV. Others (including provisions)
- Total
- * or bal in question

Schedule 6 - Cash & balances with Reserve bank & other

As on 31.3... As on 31.3...
 (Current) (Previous)

particulars

- I. Cash in hand (incl. foreign currency notes)
- II. Balances with RBI
 - (i) in current accounts.
 - (ii) in other accounts
- Total (I+II)

Schedule 7 - Balance with bank & Money at call

particulars	at short	Notice
	As on 31.3... (Current)	As on 31.3... (Previous)
1. In India		
(i) Balances with banks		
(a) in current accounts		
(b) in other deposit accounts		
(ii) Money at call at short notice		
(a) with banks		
(b) with other institutions		
Total		
2. Outside India		
(i) Current accounts		
(ii) In other deposit accounts		
(iii) Money at call at short notice		
Total		
Grand total (1+2)		

Schedule 8 - Investments

particulars	As on 31.3... (Current)	As on 31.3... (Previous)
	1. Investments in India in:	
(a) government securities		
(b) other approved securities		
(c) shares		
(d) debentures & bonds		
(e) subsidiaries and/or joint venture		
(f) others (to be specified)		
Total		
2. Investments outside India in:-		
(i) Govt. securities including local authorities		
(ii) subsidiaries and/or joint venture abroad		

(ii) other investments (to be specified)
Total
Grand Total (I+II)

Schedule 9:- Advances.

particulars	As on 31.3... (current)	As on 31.3... (previous)
A. (i) Bills purchased & discounted		
(ii) cash credits, overdrafts & loans repayable on Demand		
(iii) Term Loans.		
Total		
B. (i) Secured by Tangible Assets		
(ii) Covered by Banks/Govt. Guarantees		
(iii) unsecured		
Total		
C. I. Advances outside India		
(i) Priority Sectors		
(ii) Public Sector		
(iii) Banks		
(iv) others.		
Total.		
II. Advances outside India		
(i) Due from banks		
(ii) Due from others		
(a) Bills purchased & discounted.		
(b) syndicated loans.		
(c) others.		
Total (C.I & C.II)		
Grand Total		

Schedule 10:- fixed Assets

particulars	As on 31.3... (current)	As on 31.3... (previous)
<u>I. Premises</u>		
At cost as on 31st March of the preceding year.		
Additions during the year		
Reductions during the year		
Depreciation to date.		
<u>II. other fixed Assets (including furniture or fixture)</u>		
At cost as on 31st March of the preceding year.		
Additions during the year		
Reductions during the year		
Depreciation to date.		
<u>Total</u>		

Schedule 11:- other Assets

particulars	As on 31.3... (current)	As on 31.3... (previous)
I. inter-office adjustments (net)*		
II. interest accrued		
III. tax paid in advance / tax deducted at source		
IV. stationery or stamps		
V. Non banking Assets acquired in satisfaction of claims.		
VI. Others		
<u>Total</u>		
* Dr. bal in question.		

Schedule 12: Contingent Liabilities

particulars	As on 31.3... Current	As on 31.3... (Previous)
I. claims against the bank not acknowledged as debts		
II. liability for partly paid invt.		
III. liability on account of outstanding forward exchange ^{contracts} accounts.		
IV. Guarantees given on behalf of constituents		
(a) in india		
(b) outside india.		
V. Acceptances, endorsements & other obligations.		
VI. other items for which the Bank is contingently liable.		
Total		

Schedule 13: Interest earned

particulars	As on 31.3... Current	As on 31.3... (Previous)
I. interest / discount on advance bills		
II. income on investments		
III. interest on Balances with RBI or other inter-bank funds		
IV. others		
Total		

Schedule 14 - Other Income

particulars	As on 31.3... Current	As on 31.3... (Previous)
I. commission, exchange or brokerage		
II. profit on sale of investments		
<u>Less: loss on sale of investments</u>		

III.	profit on revaluation of investments		
	less:- loss on revaluation of invt.		
IV.	profit on sale of land, building or other assets		
	less: loss on sale of land, building or other assets.		
V.	profit on exchange transactions		
	less: loss on exchange transactions		
VI.	income earned by way of dividends, etc. from subsidiaries / companies and/or joint ventures abroad/in india		
VII.	Miscellaneous income		
	Total		

schedule 15:- interest Expended.

particulars	As on 31.3...	
	current	(previous)
I. Interest on deposits		
II. interest on Reserve bank of india / inter bank borrowings.		
III. Others		
	Total	

schedule 16: operating Expenses

particulars	As on 31.3...	
	current	(previous)
I. payments to provision for employees		
II. rent, taxes or lighting		
III. printing or stationery		
IV. Advertisement or publicity		
V. Depreciation on bank's property		
VI. Director's fees, allowances or expenses		
VII. Auditor's fees or expenses.		

(including Branch Auditor fees
& expenses)

VIII. Law charges

IX. Postages, Telegrams, Telephone etc

X. Repairs & maintenance

XI. Insurance

XII. Other expenditure

Total: