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MATRIC NO - 17/SMS02/049

Course Code - ACC 302

Course title - Intermediate financial accounting II

Business Valuation Solution

Discipline Ltd

1. Average of 3 Years Profit

	2013	2014	2015
Profit	650 000	720 000	835 000
Depreciation	(150 000)	(150 000)	(150 000)
Director's remuneration	125 000	205 000	225 000
Inventory Overvalued	<u>(120 000)</u>		
Adjusted Profit	505 000	775 000	910,000

$$\text{Current Earnings} = \frac{505,000 + 775,000 + 910,000}{3}$$

$$\frac{2,190,000}{3} = 730,000$$

$$\text{Current Earnings} = 730,000$$

$$\text{Earnings Yield} = \text{Average of company 1 and Company 2}$$

$$= \frac{5.4 + 6.6}{2}$$

$$= \frac{12}{2}$$

$$= 6$$

$$P/E \text{ basis} = \frac{730,000}{6}$$

$$= \underline{121.67}$$

Discipline Ltd

2. Dividend Yield basis

$$= \frac{\text{Current or expected dividend}}{\text{Dividend Yield}}$$

Current dividend = 450,000

Dividend Yield = Average of company 1 and 2

$$\text{Dividend Yield} = \frac{0.09 + 0.11}{2}$$

$$= \frac{0.2}{2}$$

$$= 0.1$$

$$\text{Dividend Yield basis} = \frac{450,000}{0.1}$$

$$= 4,500,000$$

Discipline Ltd

3. Book Value basis

Freehold Premises

1300

Equipment

3120

Current Assets

Inventory (1395 - 120)

1275

Receivables

965

Banks

130

less payable

(820)

5970

Discipline Ltd

4. Replacement Value basis

	#
Freehold Premises	3000
Equipment	1730
Inventory	870
	<hr/>
	5600
less Payables	820
	<hr/>
	<u>4780</u>

Discipline Ltd

5. Liquidation basis

	#
Freehold Premises	3000
Equipment	1080
Inventory	1600
	<hr/>
	5680
less Payables	820
	<hr/>
	<u>4860</u>