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Course Code: Acc 302

Assignment 1

1

Average of 3 years profit

	2013 R	2014 R	2015 R
Profit	650,000	720,000	835,000
Depreciation	(150,000)	(150,000)	(150,000)
Directors remuneration	25,000	205,000	225,000
Inventory	(120,000)		
Overvalued Adjusted Profit	505,000	775,000	910,000

P/E basis = $\frac{\text{Current earnings}}{\text{Earning yield}}$

$$\text{Current earning} = \frac{505,000 + 775,000 + 910,000}{3} = \frac{2,190,000}{3}$$

$$= 730,000$$

$$\text{Earning yield} = \text{Average of company 1 and 2}$$

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

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

$$= 6$$

$$\text{P/E basis} = \frac{730,000}{6} = 121,666.67$$

II Dividend yield basis = $\frac{\text{Current expected dividend}}{\text{Dividend yield}}$

$$\text{Current dividend} = 450,000$$

$$\text{Dividend yield} = \text{Average of company 1 and 2}$$

$$= \frac{0.09 + 0.11}{2}$$

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

$$= 0.1$$

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

$$= 4,500,000 //$$

III Book value basis

	A
Freehold premises	1300
Equipment	3120
current assets	
Inventory (1395-120)	1275
Receivables	965
Bank	130
payable	<u>(820)</u>
	5470,,

IV Replacement value basis

Freehold premises	3000
Equipment	1730
Inventory	<u>870</u>
	5600
payables	<u>(820)</u>
	4780,,

V Liquidation basis

Freehold premises	3000
Equipment	1080
Inventory	<u>1600</u>
	5680
payables	<u>(820)</u>
	4860,,