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 DEPARTMENT :- ACCOUNTING

Course code :- ACC 302

Solution

Computation of Validation of Discipline Ltd as at 31/12/15

	Book Value Basis	Replacement Cost Basis	Liquidation Value Basis
Assets	A, 0000	A, 0000	A, 0000
Freehold premises	1800	3000	3000
Equipment	8120	1730	1080
Stocks	1395	870	1600
Debtors	965	965	965
Bank	130	130	130
	6910	6695	6775
	(820)	(820)	(820)
	<u>6090</u>	<u>5875</u>	<u>5955</u>

D Value of Discipline Ltd using Dividend yield

$$\text{Value of Tax} = \frac{\text{Total dividend}}{\text{Dividend yield}} = \frac{4,500,000}{10\%} = \text{A } 4,500,000$$

$$\text{Dividend yield} = \frac{9\% + 11\%}{2} = 10\%$$

$$\text{Value of dividend Ltd using P/E basis} = \text{P/E ratio} \times \text{earnings} \\ = 6 \times 810,000 = \text{A } 4,860,000 \quad \text{P/E} = \frac{5.4 + 6.6}{2} = 6$$

Computation of earnings

	2013	2014	2015
Profit	A	A	A
Profit	650	720	835
Overvaluation of opening stock	120	-	-
Overcharge of directors remuneration (500-375)	125	205	225
Undercharged depreciation (600-450)	(150)	(150)	(150)
Adjusted profit	745	775	910
Earnings	= 745 + 775 + 910		
	= <u>A 810</u>		