Assignment 1

٢٠١ / / التاريخ Date given : 29/5/2020

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Solution

DISCIPLINE LTD

a) Value of Discipline Ltd using P/E Basis;

Value of Business = P/E ratio x Earnings

Where P/E ratio is; $\frac{\text{P/E ratio for company one} + \text{P/E ratio for company two}}{2}$

$= \frac{5.4 + 6.6}{2} = 5.7$ or 6.

Then to get the Earnings;

	2013	2014	2015
	₦	₦	₦
Profit	650,000	720,000	835,000
Overvaluation of opening stock	120,000	-	-
Overcharge of directors remuneration (figures in the table less 375,000)	125,000	205,000	225,000
Uncharged depreciation; (600,000 - 450,000) ₦	(150,000)	(150,000)	(150,000)
Adjusted profit	745,000	775,000	910,000

∴ Earnings = 745,000 + 775,000 + 910,000 = $\frac{2,430,000}{3}$ = 810,000

∴ Value of Business = P/E ratio × Earnings
= 6 × 810,000
= ₦ 4,860,000

b) Value of Discipline Ltd using Dividend Yield Basis;

$$\text{Value of Business} = \frac{\text{Total Dividend}}{\text{Dividend yield}}$$

Total dividend = 450,000

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

= 0.1 ; 10%

$$\therefore \text{Value of Business} = \frac{450,000}{10\%}$$

= ₦ 4,500,000

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التاريخ / / ٢٠١ الموضوع :

c) Value of Discipline Ltd using Book Value, Replacement Cost and Liquidation Basis:

Value of Business =	Book Value Basis	Replacement cost Basis	Liquidation Value Basis
Assets: Non-Current	₦	₦	₦
Freehold premises	1,300,000	3,000,000	3,000,000
Equipment	3,120,000	1,730,000	1,080,000
Current:			
Stocks	1,395,000	870,000	1,600,000
Debtors	965,000	965,000	965,000
Bank	130,000	130,000	130,000
	6,910,000	6,695,000	6,775,000
less: liabilities			
Payables	(820,000)	(820,000)	(820,000)
	6,090,000	5,875,000	5,955,000