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Solution of business valuation assignment
Discipline ltd

1) On P/E basis;

Valuation = P/E ratio × Earnings

workings:

$$P/E \text{ ratio value} = \frac{5.4 + 6.6}{2} = \frac{12}{2} = 6$$

{Average of similar companies}

Earnings:

	2013 ₦	2014 ₦	2015 ₦
Profit	650,000	720,000	635,000
Overvalued opening inventory	120,000		
Overcharge of directors remuneration	125,000 (500,000 - 375,000)	205,000 (580,000 - 375,000)	225,000 (600,00 -375,00
Underchanged depreciation (600,000 - 450,000)	(150,000)	(150,000)	(150,000)
	745,000	775,000	910,000

$$\text{Average profit} = \frac{₦745,000 + ₦775,000 + ₦910,000}{3}$$

$$= \frac{₦2430\cancel{00}}{3}$$

$$= ₦810,000$$

Therefore using P/E ratio to value Disciple ltd = 6 × ₦810,000
= ₦4,860,000

2) Dividend yield basis;

$$\text{Value of business} = \frac{\text{Current or expected dividend}}{\text{Dividend yield}}$$

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

Therefore; $\frac{450,000}{0.1}$

$= ₦4,500,000$

3) Book value basis

Assets	₦
Freehold premises	1300000
Equipment	3120000
Inventory	1395000
Receivables	965000
Bank	130000
	6910000
Payables	(820000)
Value of business →	6090000

4) Replacement cost basis:

Assets	₦
Freehold premises	3,000,000
Equipment	1730,000
Inventory	870,000
Receivables	965,000
Bank	130,000
	6695000
Payables	(820,000)
Value of business →	5875000

5) Liquidation basis:

Assets	₦
Freehold premises	3,000,000
Equipment	1,080,000
Inventory	1,600,000
Receivables	965,000
Bank	130,000
	6775000
Payables realisation cost	(820,000)
Value of business →	5955000