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Department: Accounting

Course: ACC 303 (Intermediate Financial Accounting)

Answer:

c) Computation of Earnings (Adjustment of various charges).
Discipline LTD
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 over valued	(120,000)		
Adjusted Profit	505,000	775,000	910,000

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

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

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

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

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

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

$$= 6$$

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

$$= 121.67$$

2) Dividend Yield basis

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

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

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

3) Book Value Basis

Assets

Freehold Premises
Equipment
Inventory
Receivables
Bank

Less liabilities:
Payables

R

1,300,000
3,120,000
1,395,000
465,000
130,000
6,910,000

(820,000)
6,090,000

4) Replacement Cost Basis

Assets

Freehold Premises
Equipment
Inventory
Receivables
Bank

Less: Liabilities
Payables

R

3,000,000
1,730,000
870,000
465,000
130,000
6,695,000

(820,000)
5,875,000

5) Liquidation Value Basis

Assets

Freehold Premises
Equipment
Inventory
Receivables
Bank

Less liabilities
Payables

R

3,000,000
1,680,000
1,600,000
465,000
130,000
6,775,000

(820,000)
5,955,000