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MATRIC NUMBER: 171SMS021034

COURSE: INTERMEDIATE FINANCIAL ACCOUNTING (ACC 302)

DATE: 31/05/2020

TOPIC: BUSINESS VALUATION.

DISCIPLINE LTD

I. COMPUTATION OF EARNINGS

	2013 #	2014 #	2015 #
Profit	650,000	720,000	835,000
Overvaluation of Inventory	120,000		
Overcharged Directors Remuneration	(500,000 - 375,000)	(580,000 - 375,000)	(600,000 - 375,000)
	125,000	205,000	225,000
Undercharged Depreciation	(600,000 - 450,000)	(150,000)	(150,000)
	(150,000)	(150,000)	(150,000)
Adjusted Profit	745,000	775,000	910,000

$$\text{Average} = \frac{\#745,000 + \#775,000 + \#910,000}{3} = \#810,000$$

$$\text{P/E BASIS} = \text{P/E average} \times \text{Average Earnings}$$

$$\text{P/E Average} = \frac{5.4 + 6.6}{2} = 6$$

$$\therefore 6 \times \#810,000 = \#4,860,000$$

$$2. \text{ DIVIDEND YIELD BASIS} = \frac{\text{CURRENT DIVIDEND}}{\text{DIVIDEND YIELD}}$$

$$\frac{\#450,000 + \#450,000 + \#450,000}{3} = \#450,000, \quad \frac{0.09 + 0.11}{2} = 0.1$$

$$= \frac{\#450,000}{0.1} = \#4,500,000$$

### 3. BOOK VALUE BASIS

<u>ASSETS</u>	#
Freehold Premise	1,300,000
Equipment	3,120,000
Inventory	1,395,000
Receivables	965,000
Bank	130,000
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	6,910,000

Less:

#### LIABILITIES;

Payables

( 820,000 )

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6,090,000

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### 4. REPLACEMENT COST BASIS

<u>ASSETS</u>	#
Freehold premises	3,000,000
Equipment	1,730,000
Inventory	870,000
Receivables	965,000
Bank	130,000
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	6,695,000

Less:

#### LIABILITIES;

Payables

( 820,000 )

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5,875,000

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### 5. LIQUIDATION VALUE BASIS

<u>ASSETS</u>	#
Freehold Premises	3,000,000
Equipment	1,080,000
Inventory	1,600,000
Receivables	965,000
Bank	130,000
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	6,775,000

Less;

Liabilities

Payables

( 820,000 )

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5,955,000

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