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 COURSE ACC302
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Solution

Discipline Ltd

1) P/E Basis

Value of business = P/E Ratio \times Earning ~~ratio~~

Computation of Earnings

	2013	2014	2015
Net Profit before Dividend	650,000	720,000	835,000
Over-valuation of Inventory at 2012	120,000	-	-
Overcharge of Directors Remuneration w1	125,000	205,000	225,000
Under-charged Depreciation w2	(150,000)	(150,000)	(150,000)
Adjusted Earnings	<u>745,000</u>	<u>775,000</u>	<u>910,000</u>
Earnings	A 745,000 + 775,000 + 910,000		

$= A 810,000$

P/E Ratio = $\frac{\text{Company 1} + \text{Company 2}}{2}$

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

$= 6$

Value = $6 \times A 810,000$

$= A 4,860,000$

$$ii) \text{ Dividend yield basis} = \frac{\text{Current / Expected dividend}}{\text{Dividend yield}}$$

$$\text{Current Dividend} = \text{A } 450,000$$

$$\text{Dividend yield} = \frac{\text{company 1} + \text{company 2}}{2}$$

$$= \frac{0.09 + 0.11}{2}$$

$$= 10$$

$$\text{Value} = \frac{\text{A } 450,000}{10}$$

$$= \text{A } 45,000$$

iii) Book Value Basis

Assets

Freehold Premises

Equipment

Inventory

Receivables

Bank

1,300,000

3,120,000

1,395,000

965,000

130,000

6,910,000

less Liabilities

Payables

(820,000)

Value of the business

6,090,000

10) Replacement Cost Basis

Replacement values for Assets

Freehold Premises

₹ 3,000,000

Equipment

1,730,000

Inventory

870,000

Receivables

965,000

Bank

130,000

6,695,000

less liabilities

Payables

(820,000)

Value of the business

5,875,000

11) Liquidation Basis

Liquidation values for Assets

Freehold Premises

₹ 3,000,000

Equipment

1,080,000

Inventory

1,600,000

Receivables

965,000

Bank

130,000

6,775,000

Realization cost

less liabilities

Payables

(820,000)

5,955,000

working

Over-charges of Director Remuneration

$$\begin{aligned} & 2013 \\ & \text{₹} \\ & > (500,000 - 375,000) \\ & > \text{₹ } 125,000 \end{aligned}$$

$$\begin{aligned} & 2014 \\ & \text{₹} \\ & > (580,000 - 375,000) \\ & > \text{₹ } 205,000 \end{aligned}$$

$$\begin{aligned} & 2015 \\ & \text{₹} \\ & > (600,000 - 375,000) \\ & > \text{₹ } 225,000 \end{aligned}$$

under-charged Depreciation

$$\begin{aligned} & 2013 \\ & \text{₹} \\ & > 600,000 - 450,000 \\ & > \text{₹ } 150,000 \end{aligned}$$

$$\begin{aligned} & 2014 \\ & \text{₹} \\ & > 600,000 - 450,000 \\ & > \text{₹ } 150,000 \end{aligned}$$

$$\begin{aligned} & 2015 \\ & \text{₹} \\ & > 600,000 - 450,000 \\ & > \text{₹ } 150,000 \end{aligned}$$