

NAME: INEBEDION STEPHANIE

MATRIC NO: 17/SMS02/026

DEPARTMENT: ACCOUNTING

COURSE CODE: ACC 302

COURSE TITLE: INTERMEDIATE FINANCIAL ACCOUNTING II

Assignment on business valuation

Computation of valuation of Discipline Ltd.

	Book value Basis	Replacement cost Basis	Liquidation value Basis
	A'000'	A'000'	A'000'
Assets:			
Freehold premises	4300	3000	3000
Equipment	3120	1730	1080
Stock	1395	870	1600
Debtors	965	965	965
Bank	<u>130</u>	<u>130</u>	<u>130</u>
	6910	6695	6775
Less: Liabilities	(820)	(820)	(820)
	<u>6090</u>	<u>5875</u>	<u>5875</u>

ii) value of Discipline Ltd. using dividend yield.

$$\text{value of business} = \frac{\text{total dividend}}{\text{dividend yield}} = \frac{480,000}{10\%}$$

$$= \text{A}4,500,000$$

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

$$= 10\%$$

iii) Value of Discipline Ltd. Using P/E basis!

$$\text{Value of business} = \text{P/E ratio} \times \text{earnings}$$

$$= 6 \times 810,000$$

$$= \text{₹}4,860,000$$

$$\therefore \text{P/E} = (5.4 + 6.6) / 2 = 6$$

Computation of Earnings

	1993 ₹	1994 ₹	1995 ₹
Profit	650	720	835
Over valuation of operating stocks	120	—	—
Overcharge of directors remuneration (500 - 375)	125	205	225
Undercharged depreciation (600 - 450)	(150)	(150)	(150)
	<u>745</u>	<u>775</u>	<u>910</u>