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COURSE CODE: ACC 302

ASSIGNMENT ON BUSINESS VALUATION

DISCIPLINE LTD

P/E BASIS

Earnings Computation

	2013 ₦	2014 ₦	2015 ₦
Profit	650,000	720,000	835,000
Overvalued inventory	120,000	-	-
Directors remuneration (overcharge) (4k)	125,000	205,000	225,000
Depreciation (undercharge) (600,000 - 450,000)	(150,000)	(150,000)	(150,000)
Adjusted Reported Profit	745,000	775,000	910,000

Average Reported Profit =  $\frac{745,000 + 775,000 + 910,000}{3}$

= 810,000

P/E Basis = P/E average x Average earnings | Working

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

∴ P/E Basis = 6 x 810,000

P/E Basis = ₦ 4,860,000 //

① Directors Remuneration  
 2013 → 500,000 - 375,000 = 125,000  
 2014 → 580,000 - 375,000 = 205,000  
 2015 → 600,000 - 375,000 = 225,000

Dividend Yield Basis

Value =  $\frac{\text{Current dividend}}{\text{Dividend Yield}}$

Value =  $\frac{450,000}{0.1}$

Value = ₦ 4,500,000

Working

① Current dividend =  $\frac{450,000 + 450,000 + 450,000}{3}$

= 450,000

② Dividend Yield

=  $\frac{0.09 + 0.11}{2} = 0.1$

Book Value Basis

Value = Total assets - Total liabilities

Assets	₦
Freehold Premises	1,300,000
Equipment	3,120,000
Inventory	1,395,000
Receivables	965,000
Bank	130,000
	<u>6,910,000</u>

Less:

Liabilities: Payables	(820,000)
	<u>6,090,000</u>

Value = ₦ 6,090,000

## IV. Replacement Cost Basis

Value = Replacement cost - ~~Liabilities~~

### Assets

Freehold Premises

3,000,000

Equipment

1,730,000

Inventory

810,000

Receivables

965,000

Bank

130,000

6,695,000

less:

### Liabilities

Payables

(820,000)

5,875,000

Value = ~~6,695,000~~ 5,875,000

## V. Liquidation Basis

### Assets

Freehold Premises

~~3,000,000~~

Equipment

1,080,000

Inventory

1,600,000

Receivables

965,000

Bank

130,000

6,775,000

less:

### Liability

Payables

(820,000)

5,955,000

Value = ~~6,775,000~~ 5,955,000