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COURSE TITLE: INTERMEDIATE TO FINANCIAL ACCOUNTING.
 TOPIC: METHODS OF BUSINESS VALUATION

COURSE CODE: ACC 302

DATE: 29th of May, 2020

DISCIPLINE LTD.

1. ADJUSTED INCOME STATEMENT FOR THE LAST 3 YEARS.

	2013	2014	2015
Net profit before dividend	650,000	720,000 (580 - 375)	835,000 (600 - 375)
ADJS: Director's remuneration (500-375)	125,000	205,000	225,000
Overvaluation of Inventory	120,000	-	-
Depreciation (600-450)	(150,000)	(150,000)	(150,000)
Total Adjustments	95,000	55,000	75,000
Adjusted profit	745,000	775,000	910,000

i) P/E Basis = Earnings X P/E average

→ Earnings = Average of the profit for the last 3 years

$$= \frac{745,000 + 775,000 + 910,000}{3} = \frac{2,430,000}{3} = \text{R } 810,000$$

∴ P/E Average =

5.4	company 1	company 2	Average
5.4		6.6	6.0

∴ P/E Basis = $\text{R } 810,000 \times 6.0 = \text{R } 4,860,000$

ii) Dividend Yield Basis = $\frac{\text{Current dividend}}{\text{Dividend Yield}}$

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

∴ Dividend Yield =

	company 1	company 2	Average
	0.09	0.11	0.1

∴ Dividend Yield Basis = $\frac{450,000}{0.1} = \text{R } 4,500,000$

(ii)	Book Value Basis	
	NON-CURRENT ASSETS:	
	Freehold premises	4,300,000
		3,120,000
	Equipment:	4,315,000
	CURRENT ASSETS:	
	Inventory	965,000
	Receivables	130,000
	Bank	<u>6,910,000</u>
	Less: Liabilities	
	- Payables	<u>(820,000)</u>
		<u><u>6,090,000</u></u>

(i)	Replacement Cost Basis	
	NON-CURRENT ASSETS:	
	Freehold premises	3,000,000
	Equipment	4,730,000
	CURRENT ASSETS:	
	Inventory	870,000
	Receivables	965,000
	Bank	<u>130,000</u>
		6,695,000
	Less: LIABILITIES	
	Payables	<u>(820,000)</u>
	Value →	<u><u>5,875,000</u></u>

(i)	Liquidation Basis	
	NON-CURRENT ASSETS:	
	Freehold premises	3,000,000
	Equipment	1,080,000
	CURRENT ASSETS:	
	Inventory	4,600,000
	Receivables	965,000
	Bank	<u>130,000</u>
		6,775,000
	Less: LIABILITIES	
	Payables	<u>(820,000)</u>
	Value →	<u><u>5,955,000</u></u>