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COURSE: ACC 302 (Intermediate Financial Accounting II)

DATE: 29th May, 2020.

TOPIC: Methods of Business Valuation.

Discipline Ltd

Adjustments of Profit before dividend

	2013 #	2014 #	2015 #
Net Profit before dividend	650,000	720,000	835,000
Inventory Overvalued	120,000	-	-
Over-charged directors remuneration (500,000-375,000)	125,000	(580,000-375,000)	(600,000-375,000)
Under-charged depreciation (600,000-450,000)	(150,000)	(600,000-450,000)	(600,000-450,000)
Adjusted Profit	<u>745,000</u>	<u>775,000</u>	<u>910,000</u>

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

i) ~~Average~~ Price Earning Basis = P/E Average x Average Profit

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

$$\text{Price Earning Basis} = 6 \times 810,000 = \underline{\underline{4,860,000}}$$

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

$$\text{Current dividend} = \# 450,000$$

$$\text{Dividend Yield} = \frac{0.09 + 0.11}{2} = 0.1$$

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

iii) Book Value Basis

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Non-current Assets:	
Freehold Premises	1,300,000
Equipment	3,120,000
Current Assets:	
Inventory	1,395,000
Receivables	965,000
Bank	<u>130,000</u>
	6,910,000
Liabilities:	
Payables	<u>(820,000)</u>
	<u>6,090,000</u>

iv) Replacement Cost Basis

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Non-current Assets:	
Freehold Premises	3,000,000
Equipment	1,730,000
Current Assets:	
Inventory	870,000
Receivables	965,000
Bank	<u>130,000</u>
	6,695,000
Liabilities:	
Payables	<u>(820,000)</u>
	<u>5,875,000</u>

v) Liquidation Basis

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Non-current Assets:	
Freehold Premises	3,000,000
Equipment	1,080,000
Current Assets:	
Inventory	1,600,000
Receivables	965,000
Bank	<u>130,000</u>
	6,775,000
Liabilities:	
Payables	<u>820,000</u>
	<u>5,955,000</u>