

Friday 29th May 2020.

ROTIMI MARY ANUOLUWATO.

17/SMS02/056

BUSINESS VALUATION METHODS

DISCIPLINE LTD.

1) P/E BASIS =
$$\text{EPS} \times \text{P/E Ratio}$$
$$= \cancel{\text{A}810\,000} \times 6.0$$
$$= \underline{\underline{\text{A}4,860,000}}$$

2) Dividend Yield basis =
$$\frac{\text{Total Dividend}}{\text{Dividend yield}}$$
$$= \frac{450\,000}{10\%} = \text{A}4,500\,000$$

3) Book Value basis =

Total Assets	2 490 000
less liabilities	
Total Assets	6 910 000
less liabilities	(820 000)
Book Value	<u>6 090 000</u>

4. Replacement Cost Basis

Non-current assets		
Freehold premises		3 000 000
Equipment		<u>1 730 000</u>
		4 730 000
Current assets		
Inventory	870 000	
Receivables	965 000	
Bank	<u>130 000</u>	<u>1 965 000</u>
		6 695 000
Current liabilities		(820 000)
Payables		<u> </u>
Replacement value		<u><u>5 875 000</u></u>

5. Liquidation Basis

Non-current Assets		
Freehold premises		3 000 000
Equipment		<u>1 080 000</u>
		4 080 000
Current assets		
Inventory	1 600 000	
Receivables	965 000	
Bank	<u>130 000</u>	<u>2 695 000</u>
		6 775 000
Current liabilities		(820 000)
Payables		<u> </u>
Liquidation value		<u><u>5 955 000</u></u>

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Working Notes

	2013	2014	2015
Net Profit	650 000	720 000	835 000
Inventory (Overvalued)	120 000	—	—
Directors Remuneration (Overstatement)	125 000	205 000	225 000
Depreciation	(150 000)	(150 000)	(150 000)
Adjusted Profit	<u>745 000</u>	<u>775 000</u>	<u>910 000</u>

ii) Earnings = Avg. of 3 years adjusted profit profit
$$= \frac{745 000 + 775 000 + 910 000}{3}$$
$$= \text{₦ } 2430 000$$

iii) Depreciation = $\text{₦ } (600 000 - 450 000)$
$$= 150 000$$

iv) Directors Remuneration
2013 = $\text{₦ } (500 000 - 375 000) = \text{₦ } 125 000$
2014 = $\text{₦ } (580 000 - 375 000) = \text{₦ } 205 000$
2015 = $\text{₦ } (600 000 - 375 000) = \text{₦ } 225 000$

v) Data for the 2 companies

	Comp 1	Comp-2	Avg.
Dividend yield	0.09	0.11	0.10
P/E Values	5.4	6.6	6.0

vi) Total Assets =

Freehold premises
 Equipment
 Inventory
 Receivables
 Bank

1300000
 3120000
 1395000
 965000
 1300000
6910000