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1) Adjustment to Profit before dividend.
Discipline Ltd

	2013	2014	2015
Net Profit Adjustment	650,000	720,000	835,000
Adjustments:			
Opening Inventory (Overstated)	120,000	—	—
Directors remuneration	125,000	205,000	225,000
Depreciation	(150,000)	(150,000)	(150,000)
Total adjustment	95,000	55,000	75,000
Adjusted Profit	<u>745,000</u>	<u>775,000</u>	<u>910,000</u>

Earnings

Average of 3 years adjusted Profit

$$= \frac{\text{₦}745,000 + \text{₦}775,000 + \text{₦}910,000}{3}$$

$$= \frac{\text{₦}2,430,000}{3}$$

$$= \text{₦}810,000$$

Data relating to 2 Companies

	Company 1	Company 2	Average
D/Y	0.09	0.11	0.10
P/E	5.4	6.6	6.0

1) Earnings X Price per ~~share~~ ratio. → P/E Basis

$$\begin{aligned}
 & \text{At } 810,000 \times 6.0 \\
 & = \underline{\underline{\text{A} 4,860,000}}
 \end{aligned}$$

2) $\frac{\text{Total Dividend}}{\text{Dividend Yield}}$ → Dividend Yield Basis

$$\begin{aligned}
 & = \frac{450,000}{10\%} = \text{A} 4,500,000
 \end{aligned}$$

3) Book value Basis

$$\frac{\text{Net Assets}}{\text{Total Asset - Liability}}$$

Book value

Replacement Non-current asset	Cost Basis \$	Liquidity \$
Premises	3,000,000	3,000,000
Equipment	1,730,000	1,080,000
	<u>4,730,000</u>	<u>4,080,000</u>

Current assets

Inventory	870,000	1,600,000
Receivables	965,000	965,000
Bank	130,000	130,000
	<u>1,965,000</u>	<u>2,695,000</u>

Liability

Payables

(820,000)	
<u>1,145,000</u>	
<u>5,875,000</u>	

(820,000)	
<u>1,875,000</u>	
<u>5,955,000</u>	

Workings

Adjustments

1) Directors remuneration ~~2013~~ overstated - 375,000

	2013	2014	2015
	£	£	£
Income Tax Credit	500,000	580,000	600,000
Overstated value	(375,000)	(375,000)	(375,000)
	<u>125,000</u>	<u>205,000</u>	<u>225,000</u>

2) Depreciation - They increased the profit, so we have to decrease subtract the amount.

	2013	2014	2015
	£	£	£
Depreciation	450,000	450,000	450,000
Annual increased depreciation	(600,000)	(600,000)	(600,000)
	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>