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BUSINESS VALUATION METHODS  
Discipline Ltd

Adjustment for profit before dividend

	2013	2014	2015
	₦	₦	₦
Net profit adjustment	650,000	720,000	835,000
Adjustment (Inventory)	120,000	—	—
Directors remuneration overstated	125,000	205,000	225,000
Depreciation	(150,000)	(150,000)	(150,000)
total adjustment	95,000	550,000	75,000
Adjusted profit	<u>745,000</u>	<u>775,000</u>	<u>910,000</u>

Earnings = Average of adjusted profit for 3 years

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

$$= ₦ 810,000,,$$

	COMPANY 1	COMPANY 2	Average
Dividend yield	0.09	0.11	0.10
P/E values	5.4	6.6	6.0

$$\begin{aligned}
 \text{I. P/E Basis} &= \text{EPS} \times \text{P/E Ratio} \\
 &= \text{Earnings} \times \text{P/E Ratio} \\
 &= \text{A} 810,000 \times 6.0 \\
 &= \text{A} 4,860,000
 \end{aligned}$$

$$\begin{aligned}
 \text{II. Dividend yield Basis} &= \frac{\text{Total dividend}}{\text{dividend yield}} \\
 &= \frac{450,000}{0.1} = \text{A} 4,500,000
 \end{aligned}$$

III. Book Value Basis

Assets	A
= Freehold premises	4300,000
Equipment (Net Book value)	3,120,000
Inventory	1,395,000
Receivables	965,000
	<u>130,000</u>
Bank	6,910,000
	<u>(820,000)</u>
Payables	<u>6,090,000</u>

IV. Replacement Cost Basis	
Premises	₹ 3,000,000
Equipment	<u>1,730,000</u>
	4,730,000
Inventory	870,000
Receivables	965,000
Bank	<u>130,000</u>
	1,965,000
Payables	<u>(820,000)</u>
	1,145,000
	<u>5,875,000</u>

V. Liquidation Basis	
Premises	₹ 3,000,000
Equipment	<u>1,080,000</u>
	4,080,000
Inventory	1,600,000
Receivables	9,650,000
Bank	<u>130,000</u>
	2,695,000
Payables	<u>(820,000)</u>
	1,875,000
	<u>5,955,000</u>

Workings:-

a. Depreciation = ₹ 600,000 - 450,000  
= ₹ 150,000

b. Directors remuneration

2013 = ₹ 500,000 - ₹ 375,000 = ₹ 125,000

2014 = ₹ 580,000 - ₹ 375,000 = ₹ 205,000

2015 = ₹ 600,000 - ₹ 375,000 = ₹ 225,000