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MATRIC NO: 17/SMS02/063

BUSINESS VALUATION METHODS

ASSIGNMENT (29-5-2020)

DISCIPLINE LTD

CALCULATION OF THE VALUE OF DISCIPLINE LTD.

	2013	2014	2015
Net Profit Adjustment	650,000	720,000	835,000
Adjustments: Inventory (Overvalued)	120,000	—	—
Directors Remuneration	125,000	205,000	225,000
Depreciation	(150,000)	(150,000)	(150,000)
Adjusted Profit	745,000	775,000	910,000

$$\begin{aligned} \text{Earnings} &= \text{Average of 3 years adjusted profit} \\ &= \frac{\text{N}745,000 + \text{N}775,000 + \text{N}910,000}{3} \\ &= \frac{\text{N}2,430,000}{3} \\ &= \text{N}810,000 \end{aligned}$$

Directors Remuneration

$$\text{For 2013} \\ \text{N}500,000 - \text{N}375,000 = \text{N}125,000$$

$$\text{For 2014} \\ \text{N}580,000 - 375,000 = \text{N}205,000$$

$$\text{For 2015} \\ \text{N}600,000 - 375,000 = \text{N}225,000$$

Depreciation

$$\begin{aligned} &= \text{N}600,000 - \text{N}450,000 \\ &= \text{N}150,000 \end{aligned}$$

Data Relating to two listed companies

	Dividend Yield	P/E values
Company 1	0.09	5.4
Company 2	0.11	6.6
Average	0.10	6.0

Working

$$\text{Dividend yield} = \frac{0.09 + 0.11}{2} = 0.10 \quad ; \quad \text{P/E values} = \frac{5.4 + 6.6}{2} = 6.0$$

i) P/E Basis = Earnings per share \times P/E ratio

$$= \frac{\text{₹}810,000}{\text{no. of shares}} \times 6.0$$

$$= \text{₹}810,000 \times 6.0$$

$$= \text{₹}4,860,000$$

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

$$= \frac{\text{₹}450,000}{0.10}$$

$$= \text{₹}4,500,000$$

iii) Book value Basis = $\frac{\text{Net Assets}}{\text{No. of shares}}$

	Replacement values (₹)	Liquidation values (₹)
Freehold premises	3,000,000	3,000,000
Equipment	1,730,000	1,080,000
	<u>₹4,730,000</u>	<u>4,080,000</u>
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>
	(820,000)	(820,000)
Payables	<u>5,875,000</u>	<u>5,959,000</u>