

IBRAHIM AHMAD. O  
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ACC302

DISCIPLINE LIMITED

Computation of Valuation of Discipline Limited:

<u>ASSETS</u>	Book Value Basis #	Replacement Cost Basis #	Liquidation Value Basis #
Freehold Premises (cost)	1,300,000	3,000,000	3,000,000
Equipment (net book value)	3,120,000	1,730,000	1,080,000
Inventory	1,395,000	870,000	1,600,000
Receivables	965,000	965,000	965,000
Bank	130,000	130,000	130,000
	<u>6,910,000</u>	<u>6,695,000</u>	<u>6,775,000</u>
less payables	<u>(820,000)</u>	<u>(820,000)</u>	<u>(820,000)</u>
	<u><u>6,090,000</u></u>	<u><u>5,875,000</u></u>	<u><u>5,955,000</u></u>

Computation of Earnings of Discipline Ltd:

	2013 #	2014 #	2015 #
Profit Before Dividend	650,000	720,000	835,000
overvaluation of Inventory	120,000	-	-
overvaluation of Director Remuneration	125,000	205,000	225,000
Depreciation	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>
	<u><u>745,000</u></u>	<u><u>775,000</u></u>	<u><u>910,000</u></u>

Earnings -	745,000
2014	775,000
2015	<u>910,000</u>
	2,430,000

① value of Discipline limited using P/E basis:

$$= 5.4 \times 10.6$$

$$= 12 \div 2$$

$$= 6$$

value =  $6 \times 7,430,000 = \cancel{\$14,580,000}$

$6 \times 810,000 = 4,860,000$

② Dividend Yield Basis =  $\frac{\text{Current dividend}}{\text{Dividend yield}}$

i) Dividend yield =  $\frac{9\% + 11\%}{2} = 10\%$

=  $\frac{450,000}{10\%} = 4,500,000$