

SECTION 2 (200 marks)
Answer any TWO questions

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Equip Ltd., a manufacturer of sports equipment, for the year ended 31/12/2004.

Trading and Profit and Loss account for year ended 31/12/2004

	€
Sales	950,000
Costs of goods sold	740,000
Operating expenses for year	120,000
Interest for year	<u>18,000</u>
Net Profit for year	72,000
Proposed dividends	52,000
Profit and Loss Balance 1/1/2004	42,000
Profit and Loss Balance 31/12/2004	62,000

Ratios and information for year ended 31/12/2003

Earnings per Ordinary Share	13c
Dividend per Ordinary Share	7.5c
Current Ratio	1.8:1
Quick Ratio	1.2:1
Market Value of one Ordinary Share	€2
Return on Capital Employed	9.5%
Return on Equity Funds	12%

Balance Sheet as at 31/12/2004

	€
Intangible Assets	90,000
Tangible Assets	480,000
Investments (market value €90,000)	<u>100,000</u>
	670,000
Current Assets (inc. Closing Stock €110,000)	354,000
Trade Creditors	130,000
Proposed Dividends	<u>52,000</u>
	<u>172,000</u>
	<u>842,000</u>
10% Debentures (2006/2007)	180,000
Issued Capital	
Ordinary Shares @ €1 each	400,000
8% Preference Shares @ €1 each	200,000
Profit and Loss Balance	<u>62,000</u>
	<u>842,000</u>

Market Value of one Ordinary Share €2.08

You are required to answer the following:

- (a) (i) The return on capital employed in 2004.
(ii) The opening stock if the rate of stock turnover is 8 (based on average stock).
(iii) The earnings per ordinary share in 2004.
(iv) How long would it take one ordinary share to recover its 2004 market price (assume current performance is maintained)?
(v) The ordinary dividend cover in 2004. (45)
- (b) Indicate if the ordinary shareholders would be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios and other information to support your answer. (40)
- (c) The gross profit percentage for 2003 was 32%. Give 5 different explanations for the increase/decrease in 2004. (15)

(100 marks)