

SECTION 2 (200 Marks)
Answer any **TWO** questions

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Sawgrass Plc., a manufacturer in the dairy industry, for the year ended 31/12/2005. The company has an Authorised Capital of €500,000 made up of 400,000 €1 Ordinary shares and 100,000 6% Preference shares.

Trading and Profit and Loss account for year ended 31/12/2005

	€
Sales	890,000
Cost of sales	(695,000)
Total operating expenses for the year	(120,000)
Interest for year	<u>(20,000)</u>
Net Profit for year	55,000
Proposed dividends	<u>(48,000)</u>
Retained profit for year	7,000
Profit and Loss balance 1/1/2005	<u>40,000</u> cr.
Profit and Loss Balance 31/12/2005	<u>47,000</u>

Ratios and figures for year ended 31/12/2004

Interest cover	5 times
Quick ratio	1.2:1
Earnings per ordinary share	19c
Return on capital employed	14.2%
Market value of ordinary share	€2.10
Gearing	35%
P/E ratio	10 years
Dividend per ordinary share	18c

Balance Sheet as at 31/12/2005

	€	€
Intangible Assets	150,000	
Fixed Assets	320,000	
Investments (market value €90,000)	<u>105,000</u>	575,000
Current Assets (including Stock €45,000 and Debtors €48,000)	98,000	
Creditors trade	(28,000)	
Proposed dividends	<u>(48,000)</u>	<u>22,000</u>
		<u>597,000</u>
10% Debentures (2010/2011)		200,000
Issued capital		
300,000 Ordinary shares @ €1 each	300,000	
50,000 6% Preference shares @ €1 each	50,000	
Profit and Loss balance.	<u>47,000</u>	<u>397,000</u>
		<u>597,000</u>

Market value of one ordinary share is €2.

You are required to provide answers to the following:

- (a) Calculate the following for the year 2005:
1. Interest cover.
 2. Earnings per share.
 3. Cash sales if the average period of credit given to debtors is 2 months.
 4. How long it would take one ordinary share to recoup (recover) its 2005 market price based on present dividend pay out rate.
 5. Dividend yield on ordinary shares **for 2004**. (45)
- (b) Indicate whether the Debenture holders would be satisfied with the policies and state of affairs of the company. Use available relevant information to support your answer. (40)
- (c) What actions would you advise the company to take? (15)

(100 marks)