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

5. **Interpretation of Accounts**

The following are the actual figures for the year ended 31/12/2006 and the projected figures for the year ended 31/12/2007 of Mila Plc., a manufacturer in the pharmaceutical industry. Mila Plc. has an authorised capital of €900,000 made up of 650,000 ordinary shares at €1 each and 250,000 6% preference shares at €1 each. The firm has already issued 325,000 ordinary shares and all the preference shares.

Trading and Profit and Loss account for year ended 31/12/2006

	€	€
Sales		820,000
Opening Stock	50,000	
Closing Stock	55,000	
Costs of goods sold		615,000
Gross Profit		205,000
Operating expenses for year		145,000
		60,000
Interest		27,000
Dividends		31,000
Retained Profit		2,000
Profit and Loss Balance 1/1/2006		45,000
Profit and Loss Balance 31/12/2006		47,000

Projected ratios and figures for year ended 31/12/2007

Earnings per Ordinary Share	8c
Dividend per Ordinary Share	6.1c
Interest Cover	4 times
Quick Ratio	1.1 to 1
Price Earnings Ratio	14 to 1
Return on Capital Employed	8.5%
Gearing	58%

Balance Sheet as at 31/12/2006

		€
Fixed Assets		680,000
Investments (market value 31/12/2006 €210,000)		188,000
		868,000
Current Assets	187,000	
Current Liabilities		
Trade Creditors	(102,000)	
Proposed Dividends	(31,000)	54,000
		922,000
Financed by		
9% Debentures (2014 secured)		300,000
Capital and Reserves		
Ordinary Shares @ €1 each	325,000	
6% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	47,000	622,000
		922,000

Market value of one Ordinary Share €1.20

You are required to calculate the following for 2006

(a) (i) The Cash Purchases if the period of credit received from Trade Creditors is 2.4 months.
(ii) The Interest Cover.
(iii) The Dividend Yield.
(iv) How long it would take one Ordinary share to recover its value at present pay out rate.
(v) The projected market value of one Ordinary share in 2007. (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. (35)

(c) Advise the bank manager as to whether a loan of €150,000, on which an interest rate of 10% would be charged, should be granted to Mila Plc. for future expansion. Use relevant ratios and other information to support your answer. (20)

(100 marks)