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

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Whelan Plc, a manufacturer of building materials. The company has an authorised capital of €800,000 made up of 550,000 ordinary shares at €1 each and 250,000 8% preference shares at €1 each. Whelan Plc, has already issued 400,000 ordinary shares and all of the 8% preference shares.

Trading and Profit and Loss account for year ended 31/12/2007

	€
Sales	930,000
Costs of goods sold	(630,000)
Operating expenses for year	(200,000)
Interest for year	(16,000)
Net Profit for year	84,000
Dividends paid	(45,000)
Profit and Loss Balance 1/1/2007	65,000
Profit and Loss Balance 31/12/2007	104,000

Ratios and information for year ended 31/12/2006

Earnings per Ordinary Share	18c
Dividend per Ordinary Share	5c
Interest cover	8 times
Quick Ratio	1.1:1
Market Value of one Ordinary Share	€1.35
Return on Capital Employed	9%
Gearing	40%
Dividend cover	3 times
Dividend yield	6%

Balance Sheet as at 31/12/2007

		€
Intangible Assets		130,000
Tangible Assets		600,000
Investments (market value €160,000)		170,000
		900,000
Current Assets (inc. Closing Stock €64,000)	180,000	
Trade Creditors	(166,000)	14,000
		914,000
10% Debentures (2011/2012)		160,000
Issued Capital		
Ordinary Shares @ €1 each	400,000	
8% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	104,000	754,000
		914,000

Market Value of one Ordinary Share €1.30

You are required to calculate the following for 2007:

(a) (i) The Dividend Yield.
(ii) The opening stock if the rate of stock turnover is 10 (based on average stock).
(iii) The earnings per ordinary share in 2007.
(iv) How long would it take one ordinary share to recoup (recover) its 2007 market price based on present dividend payout rate?
(v) The Price/Earnings ratio. (45)

(b) Indicate whether the ordinary shareholders should 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) A rising liquidity ratio is a sign of prudent management. Briefly discuss. (15)

(100 marks)