

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

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Clinton plc, a manufacturer in the soft drinks industry, for the year ended 31/12/2009. The company has an Authorised Capital of €720,000 made up of 600,000 ordinary shares at €1 and 120,000 8% preference shares at €1 each. The firm has already issued 550,000 ordinary shares and all of the preference shares.

Trading and Profit and Loss account for year ended 31/12/2009

| | € | € |
|------------------------------------|-----------------|-----------------|
| Sales | | 1,004,000 |
| Cost of goods sold | | |
| Stock 1/1/2009 | 32,000 | |
| Purchases | 630,000 | |
| Stock 31/12/2009 | <u>(46,000)</u> | (616,000) |
| Operating expenses for year | | (244,000) |
| Interest for year | | <u>(36,000)</u> |
| Net Profit for year | | 108,000 |
| Dividends | | <u>(42,000)</u> |
| Retained Profit | | 66,000 |
| Profit and Loss Balance 1/1/2009 | | <u>30,000</u> |
| Profit and Loss Balance 31/12/2009 | | <u>96,000</u> |

Ratios and figures for year ended 31/12/2008

| | |
|-----------------------------------|-----------|
| Earnings per Ordinary Share | 14.5c |
| Dividend per Ordinary Share | 6.2c |
| Interest Cover | 5.3 times |
| Quick Ratio | 0.89 to 1 |
| Return on Capital Employed | 9.58% |
| Market value of an ordinary share | €1.30 |
| Gearing | 52% |
| Dividend Cover | 2.5 times |

Balance Sheet as at 31/12/2009

| | € | € |
|-------------------------------------|-----------------|-------------------------|
| Fixed Assets | 875,000 | |
| Investments (market value €120,000) | <u>140,000</u> | 1,015,000 |
| Current Assets | 125,000 | |
| Current Liabilities | | |
| Trade Creditors | (32,000) | |
| Proposed Dividends | <u>(42,000)</u> | <u>51,000</u> |
| | | <u><u>1,066,000</u></u> |
| Financed by | | |
| 10% Debentures (2011/2012 secured) | | 300,000 |
| Capital and Reserves | | |
| Ordinary shares @ €1 each | 550,000 | |
| 8% Preference shares @ €1 each | 120,000 | |
| Profit and Loss Balance | <u>96,000</u> | <u>766,000</u> |
| | | <u><u>1,066,000</u></u> |

Market Value of one ordinary share €1.40

You are required to calculate the following for 2009:

- (a) (i) The Cash Purchases if the average period of credit received from creditors is 1.5 months
(ii) The Earnings per Share
(iii) The Dividend Yield
(iv) The Interest Cover
(v) How long it would take one ordinary share to recover its 2009 market price (assume current performance is maintained)? (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 net profit percentage for 2008 was 28%. Give **five** different explanations for the increase/decrease in 2009. (15)

(100 marks)