

SECTION 2 (200 marks)
Answer any TWO questions

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Hebe plc, a manufacturer in the dairy industry. The company has an authorised capital of €600,000 made up of 500,000 ordinary shares at €1 each and 100,000 10% preference shares at €1 each. Hebe plc, has already issued 400,000 ordinary shares and 50,000 of the 10% preference shares.

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

	€
Sales	960,000
Opening stock	60,000
Closing stock	65,000
Costs of goods sold	(725,000)
Operating expenses for year	(140,000)
Interest for year	<u>(30,000)</u>
Net Profit for year	65,000
Dividends paid	<u>(50,000)</u>
Retained Profit	15,000
Profit and Loss Balance 01/01/2009	<u>40,000</u> cr
Profit and Loss Balance 31/12/2009	<u>55,000</u>

Ratios and information for year ended 31/12/2008

Earnings per Ordinary Share	21c
Dividend per Ordinary Share	15c
Interest cover	4.7 times
Quick Ratio	1:1
Market Value of one Ordinary Share	€1.80
Return on Capital Employed	13%
Gearing	37%
Dividend cover	1.4 times
Dividend yield	8.3%

Balance Sheet as at 31/12/2009

	€
Intangible Assets	180,000
Tangible Assets	520,000
Investments (market value €95,000)	<u>120,000</u>
	820,000
Current Assets (Closing Stock €65,000 and Debtors 45,000)	110,000
Trade Creditors	77,000
Bank	<u>48,000</u> (125,000)
	<u>805,000</u>
8% Debentures (2014/2015)	300,000
Issued Capital	
Ordinary Shares @ €1 each	400,000
10% Preference Shares @ €1 each	50,000
Profit and Loss Balance	<u>55,000</u>
	<u>805,000</u>

You are required to calculate the following for 2009:

- (a) (i) The Interest Cover
(ii) The Cash Purchases if the average period of credit received from trade creditors is 2 months.
(iii) The Ordinary Dividend Cover
(iv) The Market Price if P/E is 10
(v) The Dividend Yield. (45)
- (b) Indicate whether the Debenture Holders 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) A friend of yours has been given the opportunity to buy ordinary shares in Hebe plc but before doing so asks your opinion. What advice would you give? Use ratios, percentages and any other information from the above to support your conclusions. (15)

(100 marks)