

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

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Sully plc, a company involved in the construction industry for the year ended 31/12/2010. The company has an authorised capital of €700,000 made up of 600,000 ordinary shares at €1 each and 100,000 5% preference shares at €1 each. The company has already issued 550,000 ordinary shares and all of the 5% preference shares.

Trading and Profit and Loss account for year ended 31/12/2010

	€
Sales	1,170,000
Costs of goods sold	(875,000)
Operating expenses for year	(230,000)
Interest	<u>(19,200)</u>
Net Profit for year	45,800
Dividends paid	<u>(30,000)</u>
Retained Profit	15,800
Profit and Loss Balance 1/1/2010	<u>27,000</u>
Profit and Loss Balance 31/12/2010	<u>42,800</u>

Ratios and information for year ended 31/12/2009

Earnings per Ordinary Share	10.5c
Dividend per Ordinary Share	5.6c
Interest Cover	5 times
Quick Ratio	0.70 to 1
Return on Capital Employed	8.1%
Market Value of one ordinary share	€0.95
Gearing	32%
Dividend Cover	1.9 times
Dividend Yield	5.9%

Balance Sheet as at 31/12/2010

	€	€
Fixed Assets		
Intangible	150,000	
Tangible	<u>642,000</u>	792,000
Investments (market value 31/12/2010 – €90,000)		<u>150,800</u>
		942,800
Current Assets (including Stock €80,400 and Debtors €45,000)	148,000	
Less Creditors: amount falling due within 1 year		
Trade Creditors	<u>(158,000)</u>	<u>(10,000)</u>
		<u>932,800</u>
Financed by		
8% Debentures (2014 secured)		240,000
Capital and Reserves		
Ordinary Shares @ €1 each	550,000	
5% Preference Shares @ €1 each	100,000	
Profit and Loss Balance	<u>42,800</u>	<u>692,800</u>
		<u>932,800</u>

Market value of one ordinary share at the end of 2010 was **€0.90**

Required

- (a) Calculate the following for 2010:
- (i) The Opening Stock if the rate of stock turnover is 10 based on average stock
 - (ii) The Gearing ratio
 - (iii) The Earnings per Ordinary Share
 - (iv) The Dividend Yield
 - (v) How long it would take one ordinary share to recoup (recover) its 2010 market price based on present dividend payout rate? (50)
- (b) Advise the bank manager if a loan of €400,000, on which an interest rate of 8% would be charged, should be granted to Sully plc for future expansion. Use relevant ratios, percentages and other information from above to support your answer. (40)
- (c) Explain the limitations of ratio analysis. (10)

(100 marks)