

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

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Dowling plc, a manufacturer in the dairy industry for the year ended 31/12/2011. The company has an authorised capital of €1,200,000 made up of 800,000 ordinary shares at €1 each and 400,000 8% preference shares at €1 each. The company has already issued 600,000 ordinary shares and 250,000 of the 8% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2011

	€	€
Sales		1,169,000
Opening stock	42,000	
Closing stock	48,000	
Cost of goods sold		(840,000)
Operating expenses for year		(260,000)
Interest for year		(24,000)
Net Profit for year		<u>45,000</u>
Dividends paid		(42,000)
Retained Profit		<u>3,000</u>
Profit and Loss Balance 01/01/2011		<u>32,000 cr</u>
Profit and Loss Balance 31/12/2011		<u><u>35,000</u></u>

Ratios and information for year ended 31/12/2010

Earnings per Ordinary Share	12.5c
Dividend per Ordinary Share	4.8c
Interest Cover	4.7 times
Quick Ratio	1.2 to 1
Return on Capital Employed	10.4%
Market Value of one Ordinary Share	€1.30
Gearing	35%
Dividend Cover	2.6 times
Dividend Yield	5.2%

Balance Sheet as at 31/12/2011

	€	€
Fixed Assets		
Intangible Assets		170,000
Tangible Assets		780,000
Investments (market value 31/12/2011 – €80,000)		<u>95,000</u>
		1,045,000
Current Assets (including Stock €48,000 and Debtors €55,000)	140,000	
Current Liabilities		
Trade Creditors	68,000	
Bank	<u>32,000</u>	<u>(100,000)</u>
		<u>40,000</u>
		<u><u>1,085,000</u></u>
Financed by		
9% Debentures (2016/2017)		200,000
Capital and Reserves		
Ordinary Shares @ €1 each	600,000	
8% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	<u>35,000</u>	<u>885,000</u>
		<u><u>1,085,000</u></u>

Market value of one ordinary share at the end of 2011 was **€1.10**.

You are required to:

- (a) Calculate the following for 2011:
- (i) The Earnings per Ordinary Share
 - (ii) The Cash Purchases if the average period of credit received from trade creditors is 1.5 months
 - (iii) The Dividend Yield
 - (iv) How long it would take one ordinary share to recoup (recover) its 2011 market price (assume current performance is maintained)
 - (v) Return on Capital Employed. (45)
- (b) Indicate whether the ordinary shareholders would be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios, percentages and other information to support your answer. (40)
- (c) The gross profit percentage for 2010 was 35%. Give **five** different explanations for the increase/decrease in 2011. (15)

(100 marks)