

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

5. Interpretation of Accounts

The following are the figures for the year ended 31/12/2011 and the projected figures for the year ended 31/12/2012 of Glas plc, a manufacturer in the renewable energy industry. Glas plc has an authorised capital of €850,000 made up of 600,000 ordinary shares at €1 each and 250,000 6% preference shares at €1 each. The firm has already issued 300,000 ordinary shares and all the preference shares.

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

	€	€
Sales		790,000
Opening Stock	45,000	
Closing Stock	50,000	
Costs of goods sold		<u>595,000</u>
Gross Profit		195,000
Operating expenses for year		<u>132,000</u>
Net Profit		63,000
Interest		20,000
Dividends paid		<u>25,000</u>
Retained Profit		18,000
Profit and Loss Balance 01/01/2011		<u>39,000</u>
Profit and Loss Balance 31/12/2011		<u><u>57,000</u></u>

Projected Ratios for year ended 31/12/2012

Earnings per Ordinary Share	7c
Dividend per Ordinary Share	4.2c
Interest Cover	3 times
Quick Ratio	0.85:1
Price/earnings ratio	16:1
Return on Capital Employed	8.1%
Gearing	51%

Balance Sheet as at 31/12/2011

		€
Fixed Assets		650,000
Investments (market value 31/12/2011 €210,000)		<u>200,000</u>
		850,000
Current Assets	105,000	
Less Creditors: amounts falling due within 1 year		
Trade Creditors	<u>(98,000)</u>	<u>7,000</u>
		<u>857,000</u>
Financed by		
8% Debentures (2018 secured)		250,000
Capital and Reserves		
Ordinary Shares @ €1 each	300,000	
6% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	<u>57,000</u>	<u>607,000</u>
		<u>857,000</u>

Market Value of one Ordinary Share €1.15

(a) You are required to calculate the following:

- (i) Cash purchases if the period of credit received from Trade Creditors is 2.5 months.
- (ii) The Interest Cover.
- (iii) The Dividend Cover
- (iv) How long it would take one ordinary share to recover its value at present pay out rate.
- (v) The projected market value of one share in **2012**. (50)

(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. (35)

(c) The gross profit percentage in 2010 was 36%.

- (i) Calculate the gross profit percentage for 2011.
- (ii) Give 5 different explanations for the decrease/increase in 2011. (15)

(100 marks)