

**Question 5****50****(a)**

- (i) **Cash Purchases:** = Total purchases less credit purchases
- Credit purchases =  $\frac{98,000 \times 12}{2.5}$  = 470,400
- Cash purchases = 600,000 – 470,400 = 129,600 **129,600 [12]**
- (ii) **Interest Cover**
- $\frac{\text{Profit before interest}}{\text{Interest}} = \frac{63,000}{20,000} = 3.15 \text{ times [8]}$
- (iii) **Dividend Cover**
- $\frac{\text{Profit after (Interest and Pref Dividend)}}{\text{Ordinary dividend}} = \frac{43,000 - 15,000}{10,000} = 2.8 \text{ times [8]}$
- (iv) **Period to recoup price**
- $\frac{\text{Market price}}{\text{Dividend per share}} = \frac{115}{3.333} = 34.50 \text{ years [12]}$
- (v) **Projected Market value**
- Price earnings ratio x Earnings per share = 16 x 7c **€1.12 [10]**

**(b)****35**

5 points at 6 marks each  
1 point at 5 marks

**Profitability 6**

The ROCE was 7.35% in 2011. The ROCE is expected to rise to 8.1% in 2012  
Glass plc is a profitable company. This return is above the return from risk free investments of 3% to 5%. This is satisfactory in the current economic climate and next year is expected to be better. However the ROCE of 7.35% is lower than the company's cost of borrowing of 8%. Why borrow at 8% to finance a return of 7.35%. The company did not make efficient use of resources in 2011.

**Dividend Policy 6**

The Dividend Cover is 2.8 times. The expected cover will be down in 2012 to 1.67 times  
Not enough of earnings are retained particularly in 2012  
Dividend per share in 2011 is 3.33 cent and expected to be 4.2 cent in 2012. Shareholders would be happy with this trend.  
The dividend yield is 2.90%. The dividend yield in 2012 will be 3.75%.  
Not enough return for taking a risk – only around the same as risk free investments of 3 to 5%

Period to recoup price at current dividend per share is 34.50 years  
Price earnings ratio is 12.3 to 1 and expected to rise to 16 to 1 in 2012

## Liquidity 6

The Quick Ratio is 0.56 to 1 in 2011. Glas plc has a liquidity problem. There is only 56c available for every €1 owed in the short term. This would be a cause for concern.

Liquidity is expected to improve in 2012 to 0.85 to 1. This will make 85c available for every €1 owed in the short term. The improving of this ratio indicates an ability to pay dividends, if declared in 2012.

## Market Price of Share 6

Market price of share in 2011 was 115c. Market price of share in 2012 is expected to fall to 112c. This indicates a reduced value over the next year. Shareholders would be concerned by this trend as it indicates a lack of market confidence in the company.

Price earnings ratio in 2011 was 12.3 years. However PER in 2012 is expected to be 16 to 1.

Based on Div Pay Out rate the price recoup period is 34.5 years and 26.7 years in 2011 and 2012 respectively

## Gearing 6

The company is highly geared. Gearing in 2011 is 58.34% and is expected to improve to 51% in 2012. This is still high but the trend is good. This indicates that the company is dependent on outside borrowing and therefore at risk from outside investors.

Interest Cover was 3.15 times in 2011. Interest cover is expected to be 3 times in 2012

This worsening trend could make the payment of both interest and dividends more difficult.

## Sector 5

The company is in the renewable energy sector. This is a growing market with emphasis on the environment.

The prospects are average in the short term – Government grants for insulation and water heating. Its prospects are good in the long term particularly because of oil shortages and rising oil prices

15

(c)

(i) **Gross Profit percentage** = **24.68%** 5

(ii) 10

Cash losses	cash sales not recorded
Stock losses	pilferage of stock or obsolescent stock
Change in sales mix	more sales of low markup goods
Mark downs during sales	to get rid of out-of-date stock
Incorrect valuation of stock	overvalue of opening stock, undervalue of closing stock
Increased cost of sales	without an increase in sales price
Falling sales price	without corresponding drop in cost of sales