

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

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Fogarty plc, a manufacturer in the dairy industry, for the year ended 31/12/2012. The company has an authorised capital of €900,000 made up of 650,000 ordinary shares at €1 each and 250,000 6% preference shares at €1 each. The firm has already issued 400,000 ordinary shares and 200,000 of the 6% preference shares.

Trading and Profit and Loss account for year ended 31/12/2012

| | € |
|------------------------------------|----------------------|
| Sales | 820,000 |
| Cost of goods sold | (451,000) |
| Operating expenses for year | (239,000) |
| Interest for year | (18,000) |
| Net Profit for year | <u>112,000</u> |
| Dividends paid | (43,500) |
| Retained Profit | <u>68,500</u> |
| Profit and Loss Balance 01/01/2012 | 22,500 |
| Profit and Loss Balance 31/12/2012 | <u><u>91,000</u></u> |

Ratios and information for year ended 31/12/2011

| | |
|------------------------------------|-----------|
| Earnings per Ordinary Share | 17.8c |
| Dividend per Ordinary Share | 6.5c |
| Interest Cover | 5.8 times |
| Quick Ratio | 0.95 to 1 |
| Return on Capital Employed | 11.9% |
| Market value of one ordinary share | €1.75 |
| Gearing | 49% |
| Dividend Cover | 2.7 times |

Balance Sheet as at 31/12/2012

| | € | € |
|---|-----------------|-----------------------|
| Fixed Assets | 760,000 | |
| Investments (market value €120,000) | <u>110,000</u> | 870,000 |
| Current Assets (Closing Stock €38,000 and Debtors €35,000) | 86,000 | |
| Current Liabilities | | |
| Trade Creditors | (39,000) | |
| Bank | <u>(26,000)</u> | <u>21,000</u> |
| | | <u><u>891,000</u></u> |
| Financed by | | |
| 9% Debentures (2017/2018) | | 200,000 |
| Capital and Reserves | | |
| Ordinary Shares @ €1 each | 400,000 | |
| 6% Preference Shares @ €1 each | 200,000 | |
| Profit and Loss Balance | <u>91,000</u> | <u>691,000</u> |
| | | <u><u>891,000</u></u> |

Market Value of one Ordinary Share €1.90.

You are required to calculate the following for 2012:

- (a) (i) The Opening Stock if the rate of stock turnover is 11 based on average stock.
(ii) Return on Capital Employed
(iii) The Earnings per Ordinary Share.
(iv) The Dividend Yield.
(v) How long it would take one ordinary share to recover its value at present pay out rate. (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) Having assessed Fogarty plc, what actions would you advise the company to take? (15)

(100 marks)