

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

**5. Interpretation of Accounts**

The following figures have been taken from the final accounts of Henry plc, a company involved in the clothing industry, for the year ended 31/12/2013. The company has an authorised capital of €1,300,000 made up of 900,000 ordinary shares at €1 each and 400,000 6% preference shares at €1 each. The company has already issued 500,000 ordinary shares and 350,000 of the 6% preference shares.

**Trading and Profit and Loss Account for year ended 31/12/2013**

	€	€
Sales		1,070,000
Opening stock	41,000	
Closing stock	47,000	
Cost of goods sold		(740,000)
Operating expenses for year		(270,000)
Interest for year		(20,000)
Net Profit for year		<u>40,000</u>
Dividends paid		(35,000)
Retained Profit		<u>5,000</u>
Profit and Loss Balance 01/01/2013		<u>40,000</u>
Profit and Loss Balance 31/12/2013		<u><u>45,000</u></u>

**Ratios and information for year ended 31/12/2012**

Earnings per Ordinary Share	10.5c
Dividend per Ordinary Share	4.2c
Interest Cover	4.8 times
Quick Ratio	1.1 to 1
Return on Capital Employed	9.4%
Market Value of one Ordinary Share	€1.02
Gearing	42%
Dividend Cover	2.5 times
Dividend Yield	4.1%

**Balance Sheet as at 31/12/2013**

	€	€	€
<b>Fixed Assets</b>			
Intangible			150,000
Tangible			820,000
Investments (market value 31/12/2013 – €70,000)			<u>85,000</u>
			<u>1,055,000</u>
<b>Current Assets</b> (including Stock €47,000 and Debtors €55,000)		135,000	
<b>Current Liabilities</b>			
Trade Creditors	70,000		
Bank	<u>25,000</u>	<u>(95,000)</u>	<u>40,000</u>
			<u><u>1,095,000</u></u>
<b>Financed by</b>			
8% Debentures (2019 secured)			200,000
<b>Capital and Reserves</b>			
Ordinary Shares @ €1 each		500,000	
6% Preference Shares @ €1 each		350,000	
Profit and Loss Balance		<u>45,000</u>	<u>895,000</u>
			<u><u>1,095,000</u></u>

Market value of one ordinary share €0.85 on 31/12/2013.

- (a) **You are required to calculate the following for 2013:** (where appropriate calculations should be made to **two** decimal places.)
- (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) The Ordinary Dividend Cover
  - (v) How long it would take one ordinary share to recover its value at present pay-out rate? (50)
- (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) Explain the limitations of ratio analysis. (10)

**(100 marks)**