

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

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Shannon plc, a company involved in the construction industry for the year ended 31/12/2013. The company has an authorised capital of €700,000 made up of 500,000 ordinary shares at €1 each and 200,000 5% preference shares at €1 each. The firm has already issued 350,000 ordinary shares and 100,000 of the preference shares.

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

	€
Sales	950,000
Costs of goods sold	(755,000)
Operating expenses for year	(130,000)
Interest for year	<u>(18,000)</u>
Net Profit for year	47,000
Dividends paid	(40,000)
Profit and Loss balance 01/01/2013	<u>35,000</u>
Profit and Loss balance 31/12/2013	<u>42,000</u>

Ratios and information for year ended 31/12/2012

Earnings per ordinary share	15c
Dividend per ordinary share	12c
Interest cover	4 times
Quick ratio	0.90:1
Market value of one ordinary share	€1.35
Return on capital employed	10.1%
Gearing	48%
Dividend cover	1.25 times
Dividend yield	8.9%

Balance Sheet as at 31/12/2013

	€	€	€
Fixed Assets			
Intangible Assets			100,000
Tangible Assets			480,000
Investments (market value €200,000)			<u>210,000</u>
			790,000
Current Assets (inc. Closing Stock €62,000 & Debtors €43,000)		112,000	
Less Creditors: amounts falling due within 1 year			
Trade Creditors	65,000		
Bank overdraft	<u>45,000</u>	<u>(110,000)</u>	<u>2,000</u>
			<u>792,000</u>
Financed by			
6% Debentures (2018/2019)			300,000
Capital and Reserves			
Ordinary Shares @ €1 each		350,000	
5% Preference Shares @ €1 each		100,000	
Profit and Loss balance		<u>42,000</u>	<u>492,000</u>
			<u>792,000</u>

Market value of one ordinary share €1.30

You are required to calculate the following for 2013: (where appropriate calculations should be made to **two** decimal places).

- (a) (i) Cash sales if the period of credit given to debtors is 2 months.
(ii) Return on capital employed.
(iii) The earnings per ordinary share in 2013.
(iv) The dividend yield.
(v) How long would it take one ordinary share to recoup (recover) its 2013 market price based on present dividend payout? (50)
- (b) Advise the bank manager if a loan of €350,000, on which an interest rate of 9% would be charged, should be granted to Shannon plc for future expansion. Use relevant ratios and other information to support your answer. (40)
- (c) Explain the difference between the terms 'Liquidity' and 'Solvency' when used in Ratio Analysis. Refer to relevant ratios in your explanation. (10)

(100 marks)