

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

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Cass plc, a company involved in the pharmaceuticals industry, for the year ended 31/12/2014. The company has an authorised capital of €850,000 made up of 650,000 ordinary shares at €1 each and 200,000 6% preference shares at €1 each. The company has already issued 400,000 ordinary shares and all of the preference shares.

Trading and Profit and Loss Account for year ended 31/12/2014

	€	€
Sales		850,000
Opening Stock	32,000	
Closing Stock	36,000	
Cost of goods sold		(481,000)
Operating expenses for year		(244,000)
Interest for year		(20,000)
Net Profit for year		<u>105,000</u>
Dividends paid		(42,500)
Retained Profit		<u>62,500</u>
Profit and Loss Balance 01/01/2014		<u>27,500</u>
Profit and Loss Balance 31/12/2014		<u><u>90,000</u></u>

Ratios and information for year ended 31/12/2013

Earnings per Ordinary Share	17.5c
Dividend per Ordinary Share	6.7c
Interest Cover	5.6 times
Quick Ratio	0.95 to 1
Return on Capital Employed	11.7%
Market value of one ordinary share	€1.80
Gearing	48%
Dividend Cover	2.6 times

Balance Sheet as at 31/12/2014

	€	€	€
Fixed Assets			750,000
Investments (market value 31/12/2014 – €140,000)			<u>120,000</u>
			870,000
Current Assets		85,000	
Current Liabilities			
Trade Creditors	42,000		
Bank	<u>23,000</u>	<u>(65,000)</u>	<u>20,000</u>
			<u><u>890,000</u></u>
Financed by			
8% Debentures (2018 secured)			200,000
Capital and Reserves			
Ordinary Shares @ €1 each		400,000	
6% Preference Shares @ €1 each		200,000	
Profit and Loss Balance		<u>90,000</u>	<u>690,000</u>
			<u><u>890,000</u></u>

Market value of one ordinary share €1.95 on 31/12/2014.

- (a) **You are required to calculate the following for 2014:** (where appropriate calculations should be made to **two** decimal places.)
- (i) Cash Purchases if the period of credit received from trade creditors is 2 months.
 - (ii) Ordinary Dividend Cover.
 - (iii) Interest Cover.
 - (iv) Dividend Yield.
 - (v) How long it would take one ordinary share to recover its value at present pay-out rate. (5)
- (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. (40)
- (c) A rising Quick Ratio is a sign of prudent management. Briefly discuss. (10)

(100 marks)