

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

5. Interpretation of Accounts

The following figures have been taken from the Final Accounts of GJ plc, a manufacturer in the food processing sector, for the year ended 31/12/2014. The company has an authorised capital of €900,000 made up of 800,000 ordinary shares at €1 each and 100,000 5% preference shares at €1 each. The firm has already issued 650,000 ordinary shares and all of the 5% preference shares.

Trading and Profit and Loss account for year ended 31/12/2014	
	€
Sales	878,000
Cost of goods sold	(720,000)
Operating expenses for year	(90,000)
Interest	(14,000)
Net profit	54,000
Dividends paid	(44,000)
Retained profit	10,000
Profit and loss balance 01/01/2014	15,000
Profit and loss balance 31/12/2014	<u>25,000</u>

Ratios and information for year ended 31/12/2013

Earnings per ordinary share	9.1c
Dividend per ordinary share	8.0c
Interest cover	6 times
Quick ratio	0.90 to 1
Return on capital employed	8.2%
Market value of an ordinary share	€0.97
Gearing	28%

Balance Sheet as at 31/12/2014	€	€
Fixed Assets		855,000
Investments (market value 31/12/2014 – €100,000)		<u>110,000</u>
		965,000
Current Assets (including stock €51,500 and debtors €80,000)	131,500	
Less Creditors: amount falling due within 1 year		
Trade creditors	(121,500)	<u>10,000</u>
		975,000
Financed by		
7% debentures (2016 secured)		200,000
Capital and Reserves		
Ordinary shares @ €1 each	650,000	
5% preference shares @ €1 each	100,000	
Profit and loss balance	<u>25,000</u>	<u>775,000</u>
		<u>975,000</u>

Market value of one ordinary share **€0.95 on 31/12/2014.**

- (a) **You are required to calculate the following for 2014:** (where appropriate calculations should be made to two decimal places).
- The opening stock if the rate of stock turnover is 12 based on average stock.
 - The earnings per share.
 - The dividend yield.
 - Price earnings ratio.
 - Interest cover.
- (50)
- (b) An investor, Tom Murphy, is considering purchasing 150,000 of the already issued shares in GJ plc at 90c each. He intends using €50,000 of his own savings and the remainder would be borrowed at a fixed rate of 9%. Tom has consulted you, Barry Ryan, Financial Consultant, for advice. Write a report to Tom with your recommendations. You should include relevant ratios and other information in your report.
- (40)
- (c) State the limitations of ratio analysis as a financial analysis technique.
- (10)

(100 marks)