

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

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Ellis plc, a company involved in the renewable energy industry, for the year ended 31/12/2015. The company has an authorised capital of €900,000 made up of 700,000 ordinary shares at €1 each and 200,000 6% preference shares at €1 each. The company has already issued 450,000 ordinary shares and 100,000 of the preference shares.

Trading and Profit and Loss Account for year ended 31/12/2015

	€	€
Sales		920,000
Opening Stock	50,000	
Closing Stock	65,000	
Cost of goods sold		<u>(660,000)</u>
Gross Profit		260,000
Operating expenses for year		<u>(165,000)</u>
Interest for year		<u>(25,000)</u>
Net Profit for year		70,000
Dividends paid		<u>(30,000)</u>
Retained Profit		40,000
Profit and Loss balance 01/01/2015		<u>90,000</u>
Profit and Loss balance 31/12/2015		<u><u>130,000</u></u>

Ratios and information for year ended 31/12/2014

Earnings per Ordinary Share	12.9c
Dividend per Ordinary Share	4.8c
Interest Cover	3.1 times
Quick Ratio	0.97 to 1
Return on Capital Employed	8.4%
Market value of one ordinary share	€1.30
Gearing	45%
Dividend Cover	2.9 times

Balance Sheet as at 31/12/2015

	€	€	€
Fixed Assets			850,000
Investments (market value 31/12/2015 - €140,000)			<u>110,000</u>
			960,000
Current Assets		105,000	
Less Creditors: amounts falling due within 1 year			
Trade Creditors	50,000		
Bank	<u>35,000</u>	<u>(85,000)</u>	<u>20,000</u>
			<u><u>980,000</u></u>
Financed by			
7% Debentures (2019/2020)			300,000
Capital and Reserves			
Ordinary Shares @ €1 each		450,000	
6% Preference Shares @ €1 each		100,000	
Profit and Loss balance		<u>130,000</u>	<u>680,000</u>
			<u><u>980,000</u></u>

Market value of one ordinary share €1.40 on 31/12/2015.

- (a) **You are required to calculate the following for 2015:** (where appropriate calculations should be made to **two** decimal places.)
- (i) Cash Purchases if the average period of credit received from trade creditors is 2.5 months.
 - (ii) Return on Capital Employed.
 - (iii) Ordinary Dividend Cover.
 - (iv) Dividend Yield.
 - (v) How long it would take one ordinary share to recover its value at present earnings. (50)
- (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 liquidity ratio is a sign of prudent management. Briefly discuss. (10)

(100 marks)