

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

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Doherty Ltd, a service provider in the tourist industry, for the year ended 31/12/2015. The company has an authorised capital of €900,000 made up of 600,000 ordinary shares at €1 each and 300,000 5% preference shares at €1 each. Doherty Ltd has already issued 500,000 ordinary shares and all of the 5% preference shares.

| Trading and Profit and Loss Account for year ended 31/12/2015 | | |
|--|--------|-----------|
| | € | € |
| Sales | | 980,000 |
| Opening stock | 55,000 | |
| Closing stock | 65,000 | |
| Costs of goods sold | | (752,000) |
| Operating expenses for year | | (83,000) |
| Interest for year | | (12,000) |
| Net Profit for year | | 133,000 |
| Dividends paid | | (50,000) |
| Retained profit | | 83,000 |
| Profit and loss balance 01/01/2015 | | 45,000 |
| Profit and loss balance 31/12/2015 | | 128,000 |

| Ratios and information for year ended 31/12/2014 | | |
|---|--|-----------|
| Earnings per ordinary share | | 13.2c |
| Dividend per ordinary share | | 6c |
| Interest cover | | 6 times |
| Quick ratio | | 1.2:1 |
| Market value of one ord. share | | €1.15 |
| Return on capital employed | | 10.3% |
| Gearing | | 54% |
| Dividend cover | | 2.2 times |
| Dividend yield | | 5.22 % |

| Balance Sheet as at 31/12/2015 | | |
|---|----------|-----------|
| | € | € |
| Fixed Assets | | 856,000 |
| Investments (market value 31/12/2015 €200,000) | | 150,000 |
| | | 1,006,000 |
| Current Assets (including stock €65,000 and debtors €95,000) | 212,000 | |
| Less Creditors: amounts falling due within 1 year | | |
| Trade creditors | (90,000) | 122,000 |
| | | 1,128,000 |
| Financed by: | | |
| 6% Debentures (2017 Secured) | | 200,000 |
| Capital and Reserves | | |
| Ordinary shares @ €1 each | 500,000 | |
| 5% Preference shares @ €1 each | 300,000 | |
| Profit and loss balance | 128,000 | 928,000 |
| | | 1,128,000 |

Market value of one ordinary share on 31/12/2015 is €1.25

You are required to calculate the following for 2015: (where appropriate calculations should be made to **two** decimal places).

- (a) (i) Cash purchases if the period of credit received from trade creditors is 2 months.
(ii) Dividend yield.
(iii) Price earnings ratio
(iv) Return on capital employed.
(v) Dividend cover. (50)
- (b) Would you as a shareholder be prepared to purchase more shares in Doherty Ltd? Use relevant ratios and other information to support your answer. (35)
- (c) (i) Explain the term 'Gearing'.
(ii) What are the benefits to a business of having a low gearing?
(iii) State **two** ways to reduce the gearing of a company. (15)

(100 marks)