

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

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Boyne plc, a company involved in the renewable energy industry, for the year ended 31/12/2016. The company has an authorised capital of €950,000 made up of 750,000 ordinary shares at €1 each and 200,000 5% preference shares at €1 each. The firm has already issued 550,000 ordinary shares and 100,000 of the preference shares.

Trading and Profit and Loss Account for year ended 31/12/2016	
	€
Sales	940,000
Cost of goods sold	(670,000)
Operating expenses for year	(188,000)
Interest for year	(20,000)
Net Profit for year	62,000
Dividends paid	(40,000)
Retained Profit	22,000
Profit and Loss balance 01/01/2016	53,000
Profit and Loss balance 31/12/2016	75,000

Ratios and information for year ended 31/12/2015	
Earnings per Ordinary Share	12.7c
Dividend per Ordinary Share	4.9c
Interest Cover	5.2 times
Quick Ratio	0.95:1
Return on Capital Employed	9.5%
Market value of one ordinary share	€1.60
Gearing	32%
Dividend Cover	2.59 times

Balance Sheet as at 31/12/2016			
	€	€	€
Fixed Assets			
Intangible Assets			120,000
Tangible Assets			750,000
Investments (market value 31/12/2016 – €70,000)			90,000
			960,000
Current Assets (incl. Stock €55,000 and Debtors €45,000)		110,000	
Less Creditors: amounts falling due within 1 year			
Trade Creditors	60,000		
Bank Overdraft	15,000	(75,000)	35,000
			995,000
Financed by			
8% Debentures (2021 secured)			250,000
Capital and Reserves			
Ordinary Shares @ €1 each		550,000	
5% Preference Shares @ €1 each		100,000	
Profit and Loss balance		75,000	725,000
			995,000

Market value of one ordinary share €1.35 on 31/12/2016.

- (a) You are required to calculate the following for 2016: (where appropriate calculations should be made to two decimal places.)
- (i) Cash Sales if the average period of credit given to debtors is 1.5 months.
 - (ii) Return on Capital Employed.
 - (iii) Interest 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 debenture holders 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) Explain the difference between the terms ‘Liquidity’ and ‘Solvency’ when used in Ratio Analysis. Refer to relevant ratios in your explanation. (10)

(100 marks)