

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

**5. Interpretation of Accounts**

The following figures have been taken from the final accounts of JB plc, a health food manufacturer, for the year ended 31/12/2016. The company has an authorised capital of €1,000,000 made up of 700,000 ordinary shares at €1 each and 300,000 5% preference shares at €1 each. The firm has already issued 450,000 ordinary shares and 150,000 of the 5% preference shares.

<b>Trading and Profit and Loss account for year ended 31/12/2016</b>		
	€	€
Sales		880,000
Opening stock	73,000	
Cost of goods sold		(565,000)
Operating expenses for year		(185,000)
Interest		<u>(16,000)</u>
Net profit		114,000
Dividends paid		<u>(50,000)</u>
Retained profit		64,000
Profit and loss balance 01/01/2016		<u>15,000</u>
Profit and loss balance 31/12/2016		<u>79,000</u>

<b>Ratios and information for year ended 31/12/2015</b>	
Earnings per ordinary share	18c
Dividend per ordinary share	8c
Interest cover	6 times
Quick ratio	0.80 : 1
Return on capital employed	12%
Market value of an ordinary share	€1.20
Gearing	45%
Dividend cover	2.25 times
Dividend yield	6.67%

<b>Balance Sheet as at 31/12/2016</b>	€	€	€
<b>Fixed Assets</b>			
Intangible		150,000	
Tangible		<u>580,000</u>	730,000
Investments (market value 31/12/2016 – €120,000)			<u>100,000</u>
			830,000
<b>Current Assets</b> (including debtors €45,000)		130,000	
<b>Less Creditors: amounts falling due within 1 year</b>			
Bank overdraft	(26,000)		
Trade creditors	<u>(55,000)</u>	<u>(81,000)</u>	<u>49,000</u>
			<u>879,000</u>
<b>Financed by</b>			
8% debentures (2019 secured)			200,000
<b>Capital and Reserves</b>			
Ordinary shares @ €1 each		450,000	
5% preference shares @ €1 each		150,000	
Profit and loss balance		<u>79,000</u>	<u>679,000</u>
			<u>879,000</u>

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

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**(a) You are required to calculate the following for 2016:** (where appropriate calculations should be made to **two** decimal places).

- (i) The closing stock if the rate of stock turnover is 10 based on average stock.
- (ii) The dividend yield.
- (iii) The earnings per ordinary share.
- (iv) The return on equity funds.
- (v) Interest cover. (50)

**(b)** Advise the bank manager if a loan of €300,000, on which a rate of 6% would be charged, should be granted to JB plc.

The loan is to finance the modernisation of their manufacturing plant.

Use relevant ratios, percentages and other information to support your answer. (40)

**(c)** (i) Employees are users of financial information. If you were an employee of JB plc explain why the financial information of the company would be of interest to you.

(ii) Identify **two** other users of financial information. (10)

**(100 marks)**