

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

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Born2Run plc, a retailer in the sportswear industry, for the year ended 31/12/2017. The company has an authorised capital of €650,000 made up of 400,000 ordinary shares at €1 each and 250,000 8% preference shares at €1 each. Born2Run plc has already issued 350,000 ordinary shares and 200,000 8% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2017	
	€
Sales	880,000
Opening stock	60,000
Closing stock	90,000
Costs of goods sold	(560,000)
Operating expenses for year	(220,000)
Interest for year	<u>(18,000)</u>
Net profit for year	82,000
Dividends paid	<u>(45,000)</u>
Retained profit	37,000
Profit and loss balance 01/01/2017	<u>43,000</u>
Profit and loss balance 31/12/2017	<u><u>80,000</u></u>

Ratios and information for year ended 31/12/2016	
Earnings per ordinary share	20c
Dividend per ordinary share	10c
Interest cover	6.3 times
Quick ratio	1.3:1
Market value of one ord. share	€1.60
Return on capital employed	12.4%
Gearing	41%
Dividend cover	1.3 times
Dividend yield	6.25%

Balance Sheet as at 31/12/2017		
	€	€
Fixed Assets		650,000
Investments (market value 31/12/2017 €150,000)		<u>200,000</u>
		850,000
Current Assets	160,000	
Less Creditors: amounts falling due within 1 year		
Trade creditors	<u>(80,000)</u>	<u>80,000</u>
		<u>930,000</u>
Financed by:		
6% Debentures (2024 secured)		300,000
Capital and Reserves		
Ordinary shares @ €1 each	350,000	
8% Preference shares @ €1 each	200,000	
Profit and loss balance	<u>80,000</u>	<u>630,000</u>
		<u><u>930,000</u></u>

Market value of one ordinary share on 31/12/2017 is **€1.35**.

- (a) You are required to calculate the following for 2017:** (where appropriate calculations should be made to **two** decimal places).
- (i) Cash purchases if the period of credit received from trade creditors is 2½ months.
 - (ii) Dividend yield.
 - (iii) Price earnings ratio.
 - (iv) Return on capital employed.
 - (v) Interest cover. (50)
- (b)** Indicate whether 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)** Born2Run plc is considering expansion by purchasing a small sportswear company. It has obtained the following information relating to this company:

	2014	2015	2016	2017
Period of credit allowed to debtors	60 days	54 days	46 days	40 days
Period of credit received from creditors	20 days	26 days	30 days	34 days
Stock turnover	12 times	11 times	9 times	6 times

Having analysed the information in the above table, what advice would you give Born2Run plc regarding this purchase?

(10)

(100 marks)