

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

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Dory plc, a manufacturer in the pharmaceutical sector, for the year ended 31/12/2017. The company has an authorised capital of €1,500,000 made up of 950,000 ordinary shares at €1 each and 550,000 5% preference shares at €1 each. The firm has already issued 700,000 ordinary shares and 400,000 of the preference shares.

Trading and Profit and Loss Account for year ended 31/12/2017	
	€
Sales	1,600,000
Cost of goods sold	(880,000)
Operating expenses for year	(400,000)
Interest for year	(28,000)
Net Profit for year	292,000
Dividends paid	(146,000)
Retained Profit	146,000
Profit and Loss balance 01/01/2017	114,000
Profit and Loss balance 31/12/2017	260,000

Ratios and information for year ended 31/12/2016	
Earnings per Ordinary Share	25c
Dividend per Ordinary Share	13c
Interest Cover	8.2 times
Quick Ratio	0.85:1
Return on Capital Employed	12.2%
Market value of an ordinary share	€1.20
Gearing	41%
Dividend Cover	1.92 times

Balance Sheet as at 31/12/2017	€	€	€
Fixed Assets			
Intangible Assets			150,000
Tangible Assets			1,228,000
Investments (market value 31/12/2017 – €225,000)			200,000
			1,578,000
Current Assets (including Stock €108,000 and Debtors €84,000)		270,000	
Less Creditors: amounts falling due within 1 year			
Trade Creditors	65,000		
Bank Overdraft	23,000	(88,000)	182,000
			1,760,000
Financed by			
7% Debentures (2019 secured)			400,000
Capital and Reserves			
Ordinary Shares @ €1 each		700,000	
5% Preference Shares @ €1 each		400,000	
Profit and Loss balance		260,000	1,360,000
			1,760,000

Market value of one ordinary share on **31/12/2017** is **€1.30**.

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- (a) You are required to calculate the following for 2017:** (where appropriate calculations should be made to **two** decimal places.)
- (i) Opening Stock if the rate of stock turnover is 11 based on average stock.
 - (ii) Cash Sales if the average period of credit given to debtors is 1.5 months.
 - (iii) Return on Capital Employed.
 - (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. (40)
Use relevant ratios, percentages and other information to support your answer.
- (c)** Briefly discuss whether a rising liquidity ratio is a sign of prudent management. (10)
- (100 marks)**