

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

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Shannon plc, a company involved in the renewable energy industry, for the year ended 31/12/2018. The company has an authorised capital of €900,000 made up of 600,000 ordinary shares at €1 each and 300,000 8% preference shares at €1 each.

Shannon plc has already issued 500,000 ordinary shares and 250,000 8% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2018		
	€	€
Sales		960,000
Opening stock	50,000	
Closing stock	60,000	
Costs of goods sold		(760,000)
Operating expenses for year		(95,000)
Interest for year		<u>(15,000)</u>
Net profit for year		90,000
Dividends paid		<u>(55,000)</u>
Retained profit		35,000
Profit and loss balance 01/01/2018		<u>52,000</u>
Profit and loss balance 31/12/2018		<u><u>87,000</u></u>

Ratios and information for year ended 31/12/2017	
Earnings per ordinary share	10c
Dividend per ordinary share	5c
Interest cover	4.3 times
Acid test ratio	0.86:1
Market value of one ord. share	€1.25
Return on capital employed	5.8%
Gearing	56%
Dividend cover	2 times
Dividend yield	4%

Balance Sheet as at 31/12/2018		
	€	€
Fixed Assets		811,000
Investments (market value 31/12/2018, €250,000)		<u>210,000</u>
		1,021,000
Current Assets (including debtors €78,000)	150,000	
Less creditors: amounts falling due within 1 year		
Trade creditors	<u>(84,000)</u>	<u>66,000</u>
		<u>1,087,000</u>
Financed by:		
6% Debentures (2025 secured)		250,000
Capital and Reserves		
Ordinary shares @ €1 each	500,000	
8% Preference shares @ €1 each	250,000	
Profit and loss balance	<u>87,000</u>	<u>837,000</u>
		<u><u>1,087,000</u></u>

Market value of one ordinary share on 31/12/2018 is **€1.35**.

- (a) **You are required to calculate the following for 2018:** (where appropriate calculations should be made to **two** decimal places).
- (i) Cash sales if the period of credit given to debtors is 1.5 months.
 - (ii) Dividend yield.
 - (iii) Dividend cover.
 - (iv) Return on capital employed.
 - (v) Price earnings ratio. (50)
- (b) Indicate if the ordinary shareholders 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) Shannon plc is considering acquiring a solar panel company, Gener8 Ltd in 2019. Gener8 Ltd has supplied the following balance sheet information for 31/12/2018.

Closing stock	€47,000
Creditors	€45,000
Debtors	€39,000
Expenses accrued	€15,000
Expenses prepaid	€13,000
Bank overdraft	€16,500

Based on the information given in the above table:

- (i) Calculate the current ratio for Gener8 Ltd.
Calculate the acid test ratio for Gener8 Ltd.
- (ii) Using the calculated figures explain why it is important for Shannon plc to analyse the liquidity position for Gener8 Ltd.

(10)
(100 marks)