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# Facui PLC

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## Interpretation of Accounts (Ratios)

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### 2020

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### Shareholders

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### Part B - Comments

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**SHAREHOLDERS**

Remember to use the following headings and ratios when commenting on part B. These will be used from a **shareholder's point of view**

| Performance   |                     | State of Affairs |                   |                      | Prospectus |                   |
|---------------|---------------------|------------------|-------------------|----------------------|------------|-------------------|
| Profitability | Dividend Policy     | Liquidity        | Gearing           | Investment policy    | Sector     | Share performance |
| 1. ROCE       | 1. Dividend Cover   | 1. Acid Test     | 1. Gearing        | 1. Investment Policy | 1. Sector  | 1. EPS            |
| 2. EPS        | 2. DPS              |                  | 2. Interest Cover |                      |            | 2. P/E Ratio      |
|               | 3. Dividend Yield   |                  |                   |                      |            | 3. Market Price   |
|               | 4. Dividend Pay out |                  |                   |                      |            |                   |

Try to use the following sentence to help you remember the headings for shareholder comments

**Paul Does Landscaping Gardening In Spring & Summer**

**NOTE**

You might have to calculate some ratios still for part B - calculate them quickly using your calculator and make a record of the figure (You will be awarded 2 marks for each additional ratio that is calculated outside of the ratios from Part A)

Remember a shareholder is interested in the shares and dividends

**Exam Tip**

Each comment should have the following parts

1. Compared to two years (this year and last year or projected year)
2. Must say if it is an **improvement** or **disimprovement** and a **positive** or **negative** trend
3. Would the party (shareholder, bank manager or debenture holder) be **satisfied** or **dissatisfied** and why
4. Must include the phrases that are in bold in this document - don't para phrase as these are the common phrases used in the marking schemes.

**PERFORMANCE****PROFITABILITY****ROCE****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Say if the company is profitable - compare to risk free investments
4. Compare to debenture & preference rates
5. Would shareholders be satisfied/dissatisfied?

**Template**

1. In \_\_\_\_\_ the ROCE is \_\_\_\_ %. In \_\_\_\_\_ the ROCE was \_\_\_\_\_ %
2. This is an improvement / dis-improvement of \_\_\_\_ % and is a positive / negative trend
3. If the returns on Shareholder Funds is calculate include it here
4. The company is profitable / not profitable as the return is higher /lower than risk free investment of 0-2%
5. It is also above /below the debenture rate interest of \_\_\_\_% and above / below Preference share capital rate of \_\_\_\_%
6. Shareholders would be satisfied / not satisfied - as the company is making efficient / inefficient use of its resources available to them

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

**Suggest Solution (2021 - Facui PLC)**

1. In 2020 the ROCE is 9.5 %. In 2019 the ROCE was 9.07 %
2. This is an improvement of .43 % and is a positive trend
3. The return on share-holder funds is very good at 11.07%
4. The company is profitable as the return is higher than risk free investment of 0-2%
5. It is also above the debenture rate interest of 8 % And Preference share capital rate of 9 %
6. Shareholders would be satisfied - as the company is making efficient use of its resources available to them

**Tip** – MUST include the text that is in bold

EPSQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/dissatisfied?

Template

1. In \_\_\_\_\_ the EPS is \_\_\_\_ c. In \_\_\_\_\_ the EPS was \_\_\_\_ c
2. This is an improvement / dis-improvement of \_\_\_\_ c and is a positive / negative trend
3. Shareholders would be satisfied / dis-satisfied with this as it indicates the profit in cents coming from shares and how well / badly shareholders' investment is used over the years

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

**Tip** – MUST include the text that is in bold

Suggested solution (2021 - Fauci PLC)

1. In 2020 the EPS is 15 c. In 2019 the EPS was 16 c
2. This is a dis-improvement of 1 c and is a negative trend
3. Shareholders would be dis-satisfied with this as it indicates the profit in cents coming from shares and badly shareholder investments is used over the years

**DIVIDEND POLICY**Dividend CoverQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/dissatisfied?

Template

1. In \_\_\_\_\_ the Dividend cover is \_\_\_\_ times, In \_\_\_\_\_ the Dividend cover was \_\_\_\_ times
2. This is an improvement / dis - improvement and is a positive / negative trend. It means more / less profit is being retained for expansion purpose and repayment of loans

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

3. Shareholders would be satisfied / dis - satisfied with as there is enough / not enough profit being retained for expansion purpose and repayment of loans

#### Suggested solution (2021 - Fauci PLC)

1. In 2020 the Dividend cover is 7.5 times, In 2019 the Dividend cover was 2.5 times
2. This is an improvement and is a positive trend. It means more profit is being retained for expansion purpose and repayment of loans
3. Shareholders would be satisfied with as there is enough profits being retained for expansion purposes and repayment of loans

**Tip** – MUST include the text that is in bold

#### Dividend per Share (DPS)

##### Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

##### Template

1. In \_\_\_\_\_ the DPS is \_\_\_\_c. In \_\_\_\_\_ the DPS was \_\_\_\_\_c
2. This is an improvement / dis-improvement of \_\_\_\_\_c. This is a positive / negative trend
3. Shareholders would satisfied / dis - satisfied with this in the short terms as it indicates how much dividend they will receive.

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

#### Suggested Solution (2021 - Fauci PLC)

1. In 2020 the DPS is 2c. In 2019 the DPS was 6.4 c
2. This is a dis-improvement of 4.4 c. This is a negative trend
3. Shareholders would dis-satisfied with this in the short terms as it indicates how much dividend they will receive

**Tip** – MUST include the text that is in bold

### Dividend Yield

#### Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. compare to risk free investments
4. Compare to debenture & preference rates
5. Would shareholders be satisfied/Dissatisfied?

#### Template

1. In \_\_\_\_\_ the Dividend yield is \_\_\_\_ %. In \_\_\_\_\_ the Dividend yield was \_\_\_\_ %
2. This is an improvement / dis-improvement of \_\_\_\_ % and is a positive / negative trend
3. It is higher / lower than risk free investment of between 0 - 2%
4. This is also higher / lower than debentures of \_\_\_\_% and the preference share of \_\_\_\_%
5. Shareholders would be satisfied / dissatisfied with this as the company will find it easy / difficult to pay out dividends

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

#### Suggested Solution (2021 - Fauci PLC)

1. In 2020 the Dividend yield is 1.1 %. In 2019 the Dividend yield was 4 %
2. This is a dis-improvement of 2.9 % and is a negative trend
3. It is higher than risk free investment of between 0-2%
4. This is also lower than debentures of 8 % and the preference share of 9 %
5. Shareholders would be dissatisfied with this as the company will find it difficult to pay out dividends

**Tip** – MUST include the text that is in bold

### Dividend Pay-out

#### Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

**Template**

1. In \_\_\_\_\_ the Dividend pay-out is \_\_\_\_%. In \_\_\_\_\_ the Dividend pay-out was \_\_\_\_%
2. This is an improvement / dis-improvement and a positive / negative trend
3. Shareholders would like to see this closer to 50% and would be satisfied / dissatisfied with this.

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

**Suggested Solution (2021 - Fauci PLC)**

1. In 2020 the Dividend pay-out is 13.33 %. In 2019 the Dividend pay-out was 40 %
2. This is a dis-improvement and a negative trend
3. Shareholders would like to see this closer to 50% and would be dissatisfied with this.

**Tip** – MUST include the text that is in bold

**Note** – This can also be included under Profitability.

**Note - Dividend Pay-Out**

1. Dividend pay-out should be less than 50% for Debenture holders to be satisfied.
1. If above 50% - they are paying out too much dividend - this means that debenture holders will not be happy as the company is not retaining enough money for expansion and paying interest.
2. If below 50% - Debenture holders would be happy as the company should have enough retained for expansion and paying interest.
3. The formula to calculate Dividend payout is = DPS/EPS x 100/1 = %

**Exam Tip**

Under dividend policy must have

1. Dividend cover
2. Dividend yield
3. Dividend Per Share

I would also include Dividend payout as you will not know if marks will be given in a certain year. It is better to have it included that not

**STATE OF AFFAIRS****LIQUIDITY****Acid Test Ratio****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend (compare to recommended ratio 1:1)
3. Does it have a liquidity problem - can they pay debts in the short term
4. Would shareholders be satisfied/dis-satisfied

**Template**

1. In \_\_\_\_\_ the acid test ratio was \_\_\_\_\_. In 2019 the acid test ratio was \_\_\_\_\_
2. This is an improvement / Dis-improvement of \_\_\_\_c and is above the recommended ratio of 1:1
3. \_\_\_\_\_ PLC does / does not have a liquidity problem and are able / not able to pay their debts as they fall due in the short term. This is because they have €\_\_\_\_\_ in liquid assets for every euro it owes in the short term
4. Shareholders will be satisfied / dissatisfied as \_\_\_\_\_ PLC will / will not have problems paying out dividends or other short terms debts as they fall due.
5. However \_\_\_\_\_ PLC liquidity figures are too conservative. Too much capital is tied up in Debtors and is unavailable for other purposes. (Add if there the debtors figure is high)

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

**Suggested Solution (2021 - Fauci PLC)**

1. In 2020 the acid test ratio was 2.49:1. In 2019 the acid test ratio was 1.8:1
2. This is an improvement of .69 c and is above the recommended ratio of 1:1
3. Fauci PLC does not have a liquidity problem and are able to pay their debts as they fall due in the short term. This is because they have € 2.49 in liquid assets for every euro it owes in the short term

**Tip** – MUST include the text that is in bold

4. Shareholder will dissatisfied as Fauci PLC will not have problems paying out dividends or other short terms debts as they fall due
5. However Fauci's liquidity figures are too conservative. Too much capital is tied up in Debtors and is unavailable for other purposes.

## GEARING

### Gearing

#### Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend and it the company is a lowly/highly geared company.
3. Does it depend on outside borrowing
4. Would Shareholders be satisfied/dis-satisfied
5. How is the business financed

#### Template

1. In \_\_\_\_\_ the gearing ratio is \_\_\_\_%. In \_\_\_\_\_ the gearing ratio was \_\_\_\_%
2. This is an improvement / dis - improvement and is a positive / negative trend. The company is a Lowly / highly geared company
3. This means the company is dependent / less dependent on outside borrowing and would appear to be less / more of a risk from outside investors.
4. Shareholders would be satisfied / dis-satisfied as the business is now less / more dependent on outside borrowing
5. The business is highly / lowly geared and is financed more by debt / equity than by equity / debt

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

#### Suggested Solution (2021 - Fauci PLC)

1. In 2020 the gearing ratio is 56.36 %. In 2019 the gearing ratio was 62 %
2. This is an improvement and is a positive trend. The company is a highly geared company
3. This means the company is less dependent on outside borrowing and would appear to be more of a risk from outside investors.

**Tip** – MUST include the text that is in bold

4. Shareholders would be satisfied as the business is now less dependent on outside borrowing
5. The business is highly geared and is financed more by debt than by equity.

### Interest Cover

#### Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend compare to the recommended ration of 3:1
3. What does it mean - is there enough money for expansion, paying dividends and interest
4. Would shareholders be satisfied/dis-satisfied
5. Make reference to when the debenture will be paid off

#### Template

1. In \_\_\_\_\_ the Interest Cover is \_\_\_\_\_ times. In \_\_\_\_\_ the interest cover was \_\_\_\_\_ times
2. This is an improvement / dis-improvement and is a positive / negative trend and is above / below the recommended ration of 3:1
3. This means the firm has more / less money available for expansion, paying dividends and paying interest/loans
4. Shareholders would be satisfied / dis-satisfied with this
5. The Debentures of €\_\_\_\_\_ are not listed for repayment until \_\_\_\_\_. \_\_\_\_\_. plc had enough / not enough time to put aside resources to be able to repay these when the time comes.
6. The bank account is / is not overdrawn, and Debtors owe €\_\_\_\_\_. \_\_\_\_\_. PLC should / should not follow up on this (Only include if the figure are given in the question)

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

#### Suggested Solution (2021 - Fauci PLC)

1. In 2020 the Interest Cover is 2.95 times. In 2019 the interest cover was 3.2 times
2. This is a dis-improvement and is a negative trend and is below the recommended ratio of 3:1

**Tip** – MUST include the text that is in bold

3. This means the firm has less money available for expansion, paying dividends and paying interest/loans
4. Shareholders would be dis-satisfied with this
5. The Debentures of € 250,000 are not listed for repayment until 2030. Fauci plc has enough time to put aside resources to be able to repay these when the time comes.
6. The bank account is overdrawn and Debtors owe €174,000. Fauci should follow up on this.

### Investment Policy

#### Questions to answer

1. What is the investment policy last year what is it now
2. Is this an improvement/dis-improvement, positive or negative trend.
3. Does this mean good / poor management of resource available to management
4. Would shareholders be satisfied/dis-satisfied

#### Template

1. In \_\_\_\_\_ the investment is \_\_\_\_\_. In \_\_\_\_\_ the investments were \_\_\_\_\_
2. This is an improvement / dis-improvement and is a positive / negative trend
3. This means effective / ineffective use by management of resource available to them
4. Share holder would be satisfied / dis-satisfied with this

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

#### **Suggested Solution (2021 Fauci PLC)**

1. No investment given in this question this year so no need to complete

**PROSPECTS****SECTOR****Sector****Questions to answer**

1. Say what sector the business is
2. Say what the short-term prospects are and why
3. Say what the long-term prospects are and why

**Exam Tip** – MUST have a short and long term prospects is and why. Examples include – war, fuel, Brexit, inflation. It can be negative or positive

**Template**

1. \_\_\_\_\_ plc is in the \_\_\_\_\_ industry.

**Tip** – Take the industry from the question

2. In the short term prospects this industry is growing / not growing as more \_\_\_\_\_

3. In the long term prospects this industry is growing / not growing as more \_\_\_\_\_

**Suggested Solution (2021 - Fauci PLC)**

1. Fauci plc is in the computer security industry.
2. In the short term prospects this industry is growing as more people work from home increasing the need for computer security systems.
3. In the long term prospects this industry is growing, and the firm is likely to face competition and takeover from large multinational competitors.

**Tip** – MUST include the text that is in bold

**SHARE PERFORMANCE****The price earnings ratio****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

Template

1. In \_\_\_\_\_ the P/E Ratio is \_\_\_\_\_ years. In \_\_\_\_\_ the P/E ratio was \_\_\_\_\_ years
2. This is an improvement / dis-improvement of \_\_\_\_\_ years, meaning it will take \_\_\_\_\_ years to make back the market price of the share at current performance levels.
3. Shareholders will be satisfied / dis - satisfied with this as they will recover their investment in a shorter / longer time frame

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. In 2020 the P/E Ratio is 10 years. In 2019 the P/E ratio was 12 years
2. This is improvement of 2 year, meaning it will take 10 years to make back the market price of the share at current performance levels.
3. Shareholders will be satisfied with this as they will recover their investment in a shorter time frame

**Tip** – MUST include the text that is in bold

Market Price Per ShareQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

**Exam Tip** – If the company is PLC use the words 'stock market' but if the company is LTD use the words 'market confidence'

Template

1. In \_\_\_\_\_ the MPS is \_\_\_\_\_ c. in \_\_\_\_\_ the MPS was \_\_\_\_\_ c
2. This is an improvement / dis-improvement of \_\_\_\_\_ c and is a positive / Negative trend
3. Shareholders would be satisfied / dis-satisfied with this as it indicates confidence / lack of confidence in the firm by the stock market / market

**Tip** – Use the word stock market if it is a PLC and the word market if it is a LTD company

**Suggested Solution (2021 - Fauci PLC)**

1. In 2020 the MPS is 180c. in 2019 the MPS was 160c
2. This is an improvement of 20c and is a positive trend
3. Shareholders would satisfied with this as it indicates confidence in the firm by the stock market.

**Tip** – MUST include the text that is in bold

**Overall****Question to answer**

1. Say yes or no if the shareholder would be satisfied with the performance, state of affairs and prospects of the company.

**Exam Tip** – MAKE SURE to include this – as students usually leave it out losing out on up to 4 marks

**Template**

1. Yes / No the shareholder would be satisfied / dis-satisfied with the performance, state of affairs and prospects of the company.

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

**Suggested Solution (2021 - Fauci PLC)**

1. Yes, the shareholders would be satisfied with the performance, state of affairs and prospects of the company.

**Tip** – MUST include the text that is in bold