
Friend

**Interpretation of
Accounts (Ratios)**

Template

Part B - Comments

FRIEND COMMENTS

Remember to use the following headings and ratios when commenting on part B. These will be used from a **Friends point of view** (they are the same as a shareholder's point of view)

Performance		State of Affairs			Prospectus	
Profitability	Dividend Policy	Liquidity	Gearing	Investment policy	Sector	Security
1. ROCE	1. Dividend Cover	1. Acid Test	1. Gearing	1. Investment Policy	1. Sector	1. Security
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 Friends 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

NOTE

This has only come up once and I have tried to use the marking scheme and link it to the headings for a share holder as much as possible. If you have any questions, please [get in contact](#)

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 not paraphrase as these are the common phrases used in the marking schemes

PERFORMANCE

PROFITABILITY

ROCEQuestions 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 Friends 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. **The company is profitable / not profitable as the return is higher /lower than risk free investment of 0-1%**
4. **It is also above /below the debenture rate interest of ____% and above /below Preference share capital rate of ____%**
5. **Friends would be satisfied / not satisfied - as the company is making efficient / inefficient use of its resources available to them as it would take _____ years for them to receive back the cost of shares at the current pay out rate**

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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the ROCE is 6.97%. In 2013 the ROCE was 8.2%
2. This is an improvement of 1.23% and is a negative trend
3. **The company is profitable as the return is higher than risk free investment of 1-2%**
4. **It is also below the debenture rate interest of 7% And Preference share capital rate of 5%**
5. **Friends would be dissatisfied - as the company is making inefficient use of its resources available to them as it would take 15.83 years for them to receive back the cost of shares at the current pay out rate**

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 Friends 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. **Friends would be satisfied / dis-satisfied with this as it indicates the profit in cents coming from shares and how well / badly Friends' investment is used**

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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the EPS is 7.54c. In 2013 the EPS was 9.1c
2. This is an improvement of 1.56c and is a negative trend
3. **Friends would be dis-satisfied with this as it indicates the profit in cents coming from shares and how well Friends' investment is used**

Tip - MUST include the text that is in bold

DIVIDEND POLICY**Dividend Cover****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 friends 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**
3. **Friends would be satisfied / dis - satisfied with this as it increases share value, and enough / not enough is being retained for expansion and repayment of loans**

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

Suggest Solution (2015 - GJ PLC)

Dividend cover is not given for 2013 so can't include this one

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 Friends 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. **Friends would satisfied / not be 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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the DPS is 6c. In 2013 the DPS was 8c
2. This is a dis-improvement of 2c. This is a negative trend
3. **Friends would not be satisfied happy with this in the short terms as it indicates how much dividend they 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 Friends 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 _____%**
4. **This is also higher / lower than debentures of _____% and the preference share of _____%**
5. **Friends 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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the Dividend yield is 6.32%. In 2013 the Dividend Yield was 8.25%
2. This is a slight dis-improvement of 1.93% and if continues is a negative trend
3. **It is still higher than risk free investment of between 1-2%**
4. **There are also lower than debentures of 7% but is it similar to the preference share of 5%**

Tip - MUST include the text that is in bold

5. If this trend continued friends would be dissatisfied as the company will find it difficult to pay out dividends

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 Friends 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. **Friends would like to see this closer to 50% and would be satisfied / dissatisfied with this as they are receiving more / less dividend than last year**

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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the Dividend pay-out is 79.57%. In 2013 the Dividend pay-out was 87.91%
2. This is an improvement and a positive trend
3. **Friends would like to see this closer to 50% and will not be satisfied either as it is not good for the long-term stability of the company (even though they are receiving a higher dividend)**

Tip - MUST include the text that is in bold

Note - This can also be included under Profitability

1. and

Note - Dividend Pay-Out

1. Dividend pay-out should be less than 50% for Debenture holders to be satisfied.
2. 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.
3. If below 50% - Debenture holders would be happy as the company should have enough retained for expansion and paying interest.
4. The formula to calculate Dividend payout is = $DPS/EPS \times 100/1 = \%$

STATE OF AFFAIRS

LIQUIDITY

Acid Test RatioQuestions 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 Friends 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 / below 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. Friends will be satisfied / be dissatisfied as _____ PLC will / will not have problems paying out dividends or other short terms debts as they fall due

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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the acid test ratio was .66:1. In 2013 the acid test ratio was .90:1
2. This is a dis-improvement of .24c and is below the recommended ratio of 1:1
3. **GJ PLC does have a liquidity problem and not able to pay their debts as they fall due in the short term. This is because they have €0.66 in liquid assets for every euro it owes in the short term**
4. Friends will be dissatisfied as **GJ PLC will have problems paying out dividends or other short terms debts as they fall due**

Tip - MUST include the text that is in bold

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 is the company a lowly/highly geared company.
3. Does it depend on outside borrowing
4. Would Friends be satisfied/dis-satisfied

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. But 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. Shareholder would be satisfied / dis-satisfied as the business is now less / more dependent on outside borrowing
However, if using the Debt to equity ratio it is a negative / positive trend as it has improved / dis-improved from ____% to ____% this is a positive / negative trend
4. Friends would be satisfied / dis-satisfied as the company is now more dependent on outside borrowing than before and there is significant risk to the firm from outside investors. The business is highly geared and is financed more by debt than by equity.

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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the gearing ratio is 30.77%. In 2013 the gearing ratio was 28%
2. This is a dis-improvement of 2.77% and is a negative trend but the company is still a lowly geared company
3. This means the company is less dependent on outside borrowing and would appear to be less of a risk from outside investors.
5. Friends would be satisfied as the company is less dependent on outside borrowing than before and there is less significant risk to the firm from outside

Tip - MUST include the text that is in bold

investors. But is this trend continued it would be a concern to their friend. The company is lowly geared and finance more by equity than debt

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 recommend ratio of 3:1
3. What does it mean - is there enough money for expansion, paying dividends and interest
4. Would friends be satisfied/dis-satisfied
5. Make reference to when the debenture will be paid off
6. Will investment help with paying debenture

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. **This is above / below the recommend ratio of 3:1**
3. **This means the firm has more / less money available for expansion, paying dividends and paying interest/loans**
4. Friends would be satisfied / dis-satisfied with this
5. The Debentures are not listed for repayment until _____. _____ plc had enough time to put aside resources to be able to repay these when the time comes.
The bank account is / is not overdrawn and Debtors owe €_____. _____ PLC should / should not follow up on this

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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the Interest Cover is 4.86 times. In 2013 the interest cover was 6 times
2. This is a dis-improvement of 2.86 times and is a negative trend. **But is above the recommend ratio of 3:1**

Tip - MUST include the text that is in bold

3. This means the firms has less money available for expansion, paying dividends and paying interest/loans
4. Friends would be dissatisfied with this
5. It must be noted that debenture is due for repayment in 2016. There is sufficient resource to repay this when it is due
6. Selling the investment will not raise enough to repay the debentures and if the firms delay the investment may fall further

INVESTMENT POLICY**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 Friends be satisfied/dis-satisfied

Template

1. In ____ the investment is ____ . In ____ the investments was ____
2. This is an improvement / dis-improvement and is a positive / negative trend
3. **This means good / poor management of resource available to management**
4. **Friends would be satisfied / dis-satisfied with this as it indicated good / poor management of resources**

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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the value of the investment is 100,000. In 2013 the value on the investment was 110,000
2. This is a dis-improvement of 10,000 and is a negative trend
3. **This would indicate poor management of resource available to management**
4. **Friends would be dis-satisfied with this as it indicated poor management of resources**

Tip - MUST include the text that is in bold

PROSPECTS

SECTORSector**Questions to answer**

1. Say what sector the business is
2. Say what the short-term goals are
3. Say what the long-term goals are

Template

1. _____ plc is in the _____ industry.
2. **In the short term** this industry is growing / not growing as

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

3. **In the long term**, this industry is growing / not growing as _____

Suggest Solution (2015 - GJ PLC)

1. GJ plc is in the manufacturer in the food processing sector.
2. **In the short term** the prospects are poor for this industry due to the cheap imports of competitors goods
3. **In the long term** the prospects are good as it is expected that demand for food will increase due to food shortages as the world population continues to grow.

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 Friends 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. Friends 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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the P/E Ratio is 12.60 years. In 2013 the P/E ratio was 10.66 years
2. This is a dis-improvement of 1.94 years and is a negative trend, meaning it will take 12.60 years to make back the market price of the share at current performance levels.
3. **Friend will be dissatisfied with this as they will recover their investment in a longer time frame**

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

Market Price Per Share**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 Friends be satisfied/Dissatisfied?

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. Shareholder would satisfied / dis-satisfied with this as it indicates confidence / lack of confidence in the firm by the stock market

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

Suggest Solution (2015 - GJ PLC)

1. In 2014 the MPS is €0.95. in 2013 the MPS was €0.97
2. This is a dis-improvement of 2c and is a negative trend
3. **Friends would be dis-satisfied with this as it indicates a lack of 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 Friend would be satisfied with the performance, state of affairs and prospects of the company and should invest / no invest in the company

Template

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

Suggest Solution (2015 - GJ PLC)

1. No, The Friends would not be satisfied with the performance, state of affairs and prospects of the company and should not borrow to purchase €150,000 shares in GJ PLC

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