

BANK MANAGER COMMENTS

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

Performance		State of Affairs			Prospectus	
Profitability	Dividend Policy	Liquidity	Gearing	Security	Sector	Purpose of the Loan
1. ROCE	1. Dividend Cover	1. Acid Test	1. Gearing	1. Tangible Fixed Assets	1. Sector	See the Question
	2. Dividend Pay out		3. Interest Cover	1. Investments		
				2. Debenture Debts		
				3. Intangible Assets		

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

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 bank manager 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 than risk free investment of 0-1%
4. The company is borrowing at a rate of ____% (debenture) and getting a return higher / below this - why borrow at a rate higher than the return. The company is / is not making effective use of resources
5. The retained profit for _____ is enough / not enough to cover the interest for the new loan

Suggest Solution (2022 - Watson PLC)

1. The ROCE for 2021 is 6.8%. in 2020 the ROCE was 4.56%
2. This is an improvement of 2.25% and is a positive trend
3. The company is profitable as the return is higher than risk free investment of 0-1%
4. But is below the debenture rate interest of 7% and just above Preference share capital rate of 6%
5. The company is borrowing at a rate of 7% (debenture) and getting a return below this - why borrow at a rate higher than the return. The company is not making effective use of resources
6. The retained profit for 2021 is not enough to cover the interest for the new loan

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. Should the dividend cover be increase / decreased

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. The dividend cover should increase / decrease considering the profit is high / Low

Suggested solution (2022 - Watson PLC)

1. In 2021 the Dividend cover is 3.56 times, In 2020 the Dividend cover was 4.2 times
2. This is an dis-improvement of 1.36 time and is a Negative trend. It means less profit is being retained for expansion purpose and repayment of loans
3. Must be noted that the dividend cover should be increased due to the fact that profit is low

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 bank manager be happy 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. The bank manager would like more / less money retained by the business

Suggested Solution (2022 - Watson PLC)

1. In 2021 the Dividend pay-out is 28.16%. In 2020 the Dividend pay-out was 23.81%
2. This is an improvement for the shareholders but would be a concern for the bank manager as not enough money is being retained
3. The bank manager would like more money retained by the business

Note - This can also be included under Profitability

NOTE On Dividend Pay-Out

1. Dividend pay-out should be in and around 50% for shareholders to be happy (Debenture holder would accept less)
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. Shareholder will not be happy either as it is not good for the long-term stability of the company (even though they are receiving a higher dividend)
3. If below 50% - share holders will not be happy, as they would expect a higher return. Debenture holders would be happy as the company should have enough retained for expansion and paying interest.
4. Formula to calculate Dividend pay out is = $DPS/EPS \times 100/1 = \%$

STATE OF AFFAIRS**LIQUIDITY****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)
3. Does it have a liquidity problem - can they pay debts in the short term
4. How much money is tied up in debtors
5. What is the current Ratio

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. _____ PLC has too much / does not capital tied up in Debtors and unavailable for other purposes
5. The Current Ratio is safe at _____ : 1

Suggested Solution (2022 - Watson PLC)

1. In 2021 the acid test ratio was 2.97:1. In 2020 the acid test ratio was 2.3:1
2. This is an improvement / of 67c and is above the recommended ratio of 1:1
3. Watson 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 €2.97 in liquid assets for every euro it owes in the short term
4. Watson PLC has too much capital tied up in Debtors and unavailable for other purposes
5. The Current Ratio is safe at 3.43 : 1

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 the bank manager 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. The bank manager would be satisfied / dis-satisfied as the company is more / less 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. Granting the loan would make the gearing worse

Suggested Solution (2022 - Watson PLC)

1. In 2021 the gearing ratio is 58.24%. In 2020 the gearing ratio was 60%
2. This is a slight improvement and is a positive trend. But the company is still a highly geared company
3. This means the company is dependent on outside borrowing and would appear to be a risk from outside investors. The loan would have an impact on the gearing (71.16%)
4. The bank manager would be dis-satisfied as the company is 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. Granting the loan would make the gearing worse

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 recommendation of 3:1)
3. What does it mean - making repayment and is there enough money for expansion, paying dividends and interest
4. What will happen interest cover is the loan is granted - what will the interest on the loan be

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
3. This means the firm could have / could not have trouble making their interest payment on existing and new loans. The business is likely / unlikely to have money available for expansion, paying dividends and paying interest/loans
4. The interest cover will get improve / dis-improve if the loan of €_____ is granted and the interest on the loan would be €_____

Suggested Solution (2022 - Watson PLC)

1. In 2021 the Interest Cover is 2.17 times. In 2020 the interest cover was 1.9 times
2. This is an improvement and is a Positive trend but is below the recommendation ratio of 3:1
3. This means the firm could have trouble making their interest payment on existing and new loans. The business is unlikely to have money available for expansion, paying dividends and paying interest/loans
4. The interest cover will improve / dis-improve if the loan of €500,000 is granted and the interest on the loan would be €40,000

SECURITY**Security****Questions to answer**

1. Say what the fixed assets value is and the depreciation policy should be questioned
2. Look at the investment have they improve / dis-improved
3. Is there an existing loan, does the value of the tangible asset cover the value. Is there security for a new loan
4. Is tangible assets are high they should be questioned
5. Will the loan make the situation better or worse

Template

1. Tangible fixed assets including investment are valued at €_____. The depreciation policy should be questions to ascertain the true value of tangible assets
2. The investment cost €_____ but now have a value of €_____. This shows efficient use of resource by management
3. There is an existing loan of €_____ to be repaid in _____. The value of the tangible assets in adequate / not adequate to cover this loan (€_____). There is no security for a new loan
4. The intangible assets figure should be questioned as they are not generating income for a high amount (Only included it the intangible figure is high)
5. The situation will get better/ worse with a new loan being granted

Suggested Solution (2022 - Watson PLC)

6. Tangible fixed assets including investment are valued at €737,000. The depreciation policy should be questions to ascertain the true value of tangible assets
7. The investment cost €250,000 but now have a value of €270,000. This shows efficient use of resource by management
8. There is an existing loan of €500,000 to be repaid in 2028. The value of the tangible assets in not adequate to cover this loan (€487,000). There is no security for a new loan
9. The intangible assets figure should be questioned as the are not generating income for a high amount
10. The situation will get worse with a new loan being granted

PROSPECTS

SECTOR

Sector

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 more _____

3. In the long term, the economic recovery is certain / uncertain and the firm is likely / unlikely to face competition and takeover from large multinational competitors.

Suggested Solution (2022 - Watson PLC)

1. Watson plc is in the confectionary Sector
2. In the short term this industry is growing as the global economy recovers from the pandemic. However, consumer are now looking for healthier options such as low calorie and healthy snacks
3. In the long term, the economic recovery is uncertain, and the firm is likely to face competition and will have to conduct research to meet the needs of the consumer

PURPOSE OF THE LOAN

Purpose of the Loan

Questions to answer

1. What is the loan for
2. The loan needs to be more specific
3. Will the loan generate a high level of income

Template

1. The loan is to finance the firms _____
2. The plan is specific enough / needs to be more specific as to what the money will be spent on and how profit will be generated
3. It is clear / unclear if the profits generated will be enough to service the loan

Suggested Solution (2022 - Watson PLC)

1. The loan is to finance the firm expansion into the European market
2. The plan needs to be more specific as to what the money will be spent on and how profit will be generated
3. It is unclear if the profits generated will be enough to service the loan

OVERALL**Questions to answer**

1. Should the bank manager grant the loan
2. Is the company profitable, what is their dividend policy like and are profit retained
3. Is the company highly / lowly geared
4. Would the firm benefits from the loan being granted

Template

1. The Bank manager should / should not grant the loan
2. The company is profitable / not profitable, has a generous /not a generous dividend policy but enough / not enough profits are retained to expand the business and pay interest on loans
3. The company is highly / lowly geared making it vulnerable / not vulnerable to outside investors and a small change in profitability (negatively / positively) could mean interest repayments will / will not be meet
4. The firm is solvent / barely solvent and could be benefit / insolvent if the loan is granted

Suggested Solution (2022 - Watson PLC)

1. The Bank manager should not grant the loan
2. The company is profitable, has a generous dividend policy but not enough profits are retained to expand the business and pay interest on loans
3. The company is highly geared making it vulnerable to outside investors and a small change in profitability (negatively) could mean interest repayments will not be met
4. The firm is barely solvent and could be insolvent if the loan is granted