

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

**5. Interpretation of Accounts**

The following figures have been taken from the Final Accounts of Watson plc, a manufacturer in the construction industry for the year ended 31/12/2008. The company has an authorised capital of €600,000 made up of 500,000 ordinary shares at €1 each and 100,000 6% preference shares at €1 each. The firm has already issued 450,000 ordinary shares and all of the 6% preference shares.

**Trading and Profit and Loss account for year ended 31/12/2008**

	€
Sales	980,000
Costs of goods sold	(785,000)
Operating expenses for year	(125,000)
Interest	<u>(25,000)</u>
Net Profit for year	45,000
Dividends paid	<u>(37,000)</u>
Retained Profit	8,000
Profit and Loss Balance 1/1/2008	<u>40,000</u>
Profit and Loss Balance 31/12/2008	<u>48,000</u>

**Ratios and information for year ended 31/12/2007**

Earnings per Ordinary Share	19.05c
Dividend per Ordinary Share	12.7c
Interest Cover	4 times
Quick Ratio	0.98 to 1
Return on Capital Employed	10.6%
Market value of an ordinary share	€1.30
Gearing	34%

**Balance Sheet as at 31/12/2008**

	€	€
<b>Fixed Assets</b>		670,000
Investments (market value 31/12/2008 – €140,000)		<u>190,000</u>
		860,000
<b>Current Assets</b> (including Stock €29,500 and Debtors €100,000)	147,000	
<b>Less Creditors: amount falling due within 1 year</b>		
Trade Creditors	<u>(159,000)</u>	<u>(12,000)</u>
		<u>848,000</u>
<b>Financed by</b>		
10% Debentures (2012 secured)		250,000
<b>Capital and Reserves</b>		
Ordinary Shares @ €1 each	450,000	
6% Preference Shares @ €1 each	100,000	
Profit and Loss Balance	<u>48,000</u>	<u>598,000</u>
		<u>848,000</u>

Market value of one ordinary share €1.20

**You are required to calculate the following for 2008:**

- (a)
  - (i) The Cash Sales if the period of credit given to debtors is 2 months
  - (ii) Return on Capital employed
  - (iii) The Earnings per Share
  - (iv) The Dividend Yield
  - (v) How long it would take one Ordinary share to recover its value at present payout rate? (45)
- (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) Having assessed Watson plc what actions would you advise the company to take? (15)

**(100 marks)**