

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

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Robinson plc, a company involved in the home renovation and insulation industry for the year ended 31/12/2019. The company has an authorised capital of €750,000 made up of 500,000 ordinary shares at €1 each and 250,000 6% preference shares at €1 each.

Trading and Profit and Loss Account for year ended 31/12/2019	
	€
Sales	890,000
Cost of goods sold	(536,000)
Operating expenses for the year	(234,000)
Interest for year	<u>(16,000)</u>
Net profit for year	104,000
Dividends paid	<u>(48,000)</u>
Retained profit	56,000
Profit & loss balance 01/01/2019	<u>66,000</u>
Profit & loss balance 31/12/2019	<u><u>122,000</u></u>

Ratios and information for year ended 31/12/2018	
Earnings per ordinary share	18.5c
Dividend per ordinary share	8.33c
Interest cover	7 times
Acid test ratio	1.1 : 1
Market value of one ord. share	€1.24
Return on capital employed	9.8%
Gearing	55.76%
Dividend cover	2.22 times
Dividend yield	6.72%

Balance Sheet as at 31/12/2019			
	€	€	€
Fixed Assets			900,000
Investments (market value 31/12/2019, €130,000)			<u>200,000</u>
			1,100,000
Current Assets			
Stock 31/12/2019	75,000		
Debtors	<u>93,000</u>	168,000	
Less Creditors: amounts falling due within 1 year			
Trade creditors	(61,000)		
Other creditors	<u>(25,000)</u>	<u>(86,000)</u>	<u>82,000</u>
			<u><u>1,182,000</u></u>
Financed by			
4% Debentures (2023/2024 secured)			400,000
Capital and Reserves			
Ordinary shares @ €1 each		460,000	
6% Preference shares @ €1 each		200,000	
Profit and loss balance		<u>122,000</u>	<u>782,000</u>
			<u><u>1,182,000</u></u>

- (a) You are required to calculate the following for 2019:** (where appropriate, calculations should be made to **two** decimal places).
- (i) The opening stock if the rate of stock turnover is 8 based on average stock.
 - (ii) Interest cover.
 - (iii) Return on ordinary shareholders' funds.
 - (iv) The market price if the price earnings ratio is 6.
 - (v) Dividend yield.
- (50)
- (b)** Indicate if the ordinary shareholders would be satisfied with the performance, state of affairs and prospects of Robinson plc. Use relevant ratios and other information to support your answer.
- (40)
- (c)** Explain how a faster stock turnover can increase the profitability of a business.
- (10)
- (100 marks)**