

**SECTION 2 (100 marks)**

Answer **ONE** question

**5. Interpretation of Accounts**

The following figures have been extracted from the final accounts of Fauci plc, a manufacturer of computer security devices, for the year ended 31/12/2020. The company has an authorised capital of €350,000 made up of 200,000 ordinary shares at €1 each and 150,000 9% preference shares at €1 each. Fauci plc has issued all 200,000 ordinary shares and 100,000 9% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2020		Ratios and information for year ended 31/12/2019	
	€		
Sales	908,000	Earnings per ordinary share	16c
Costs of goods sold	(560,000)	Dividend per ordinary share	6.4c
Operating expenses for year	(289,000)	Interest cover	3.2 times
Interest for year	<u>(20,000)</u>	Acid Test ratio	1.8:1
Net profit for year	39,000	Market value of one ord. share	€1.60
Dividends paid	<u>(13,000)</u>	Return on capital employed	9.07%
Retained profit	26,000	Gearing	62%
Profit and loss balance 01/01/2020	<u>45,000</u>	Dividend cover	2.5 times
Profit and loss balance 31/12/2020	<u>71,000</u>	Dividend yield	4%

Balance Sheet as at 31/12/2020			
	€	€	€
<b>Fixed Assets</b>			
Tangible fixed assets			255,000
Intangible fixed assets			<u>200,000</u>
			455,000
<b>Current Assets</b>			
Debtors	174,000		
Stock 31/12/2020	<u>62,000</u>	236,000	
<b>Less Creditors: amounts falling due within 1 year</b>			
Trade creditors	40,000		
Bank Overdraft	<u>30,000</u>	<u>(70,000)</u>	<u>166,000</u>
			<u>621,000</u>
<b>Financed by:</b>			
8% Debentures (2030 secured)			250,000
<b>Capital and Reserves</b>			
Ordinary shares @ €1 each		200,000	
9% Preference shares @ €1 each		100,000	
Profit and loss balance		<u>71,000</u>	<u>371,000</u>
			<u>621,000</u>

- (a) You are required to calculate the following for 2020:**  
(where appropriate calculations should be made to **two** decimal places).
- (i) Cash sales if the period of credit given to debtors is 3 months.
  - (ii) Return on capital employed.
  - (iii) The current market price if the price earnings ratio is 12.
  - (iv) Dividend cover.
  - (v) Interest cover. (50)
- (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)** (i) What are the disadvantages to a business of having a high gearing?  
(ii) Explain **two** ways to reduce the gearing of a company. (10)
- (100 marks)**