

SECTION 2 (100 marks)
Answer any **ONE** question

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Ash Ltd, a company in the **food processing sector** for the year ended 31/12/2021. The company has an authorised capital of €600,000 made up of 400,000 ordinary shares at €1 each and 200,000 7% preference shares at €1 each. Ash Ltd has already issued 350,000 ordinary shares and 150,000 7% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2021		Ratios and information for year ended 31/12/2020	
	€		
Sales	1,520,000	Return on capital employed	10%
Cost of sales	(790,000)	Return on shareholders' funds	12%
Operating expenses for year	(650,000)	Gearing	45%
Interest for year	<u>(30,000)</u>	Interest cover	8 times
Net profit for year	50,000	Market value of one ord. share	€1.90
Dividends paid	<u>(45,000)</u>	Earnings per ordinary share	30c
Retained profit	5,000	Dividend per ordinary share	12c
Profit and loss balance 01/01/2021	<u>75,000</u>	Acid test ratio	0.95:1
Profit and loss balance 31/12/2021	<u>80,000</u>	Dividend yield	6.32%

Balance Sheet as at 31/12/2021			
	€	€	€
Fixed Assets			
Intangible assets			20,000
Tangible assets			730,000
Investments (market value 31/12/2021 €60,000)			<u>80,000</u>
			830,000
Current Assets (including stock €50,000)		150,000	
Less Creditors: amounts falling due within 1 year			
Trade creditors	(55,000)		
Bank	<u>(45,000)</u>	<u>(100,000)</u>	<u>50,000</u>
			<u>880,000</u>
Financed by			
10% Debentures (2023 secured)			300,000
Capital and Reserves			
Ordinary shares @ €1 each		350,000	
7% Preference shares @ €1 each		150,000	
Profit and loss balance		<u>80,000</u>	<u>580,000</u>
			<u>880,000</u>

Market value of one ordinary share on 31/12/2021 is **€1.60**.

- (a) You are required to calculate the following for 2021**
(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) Dividend cover.
 - (iv) Return on shareholders' funds.
 - (v) Price earnings ratio. (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)** Outline the limitations of ratio analysis that must be considered when using ratios. (10)
- (100 marks)**