

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

**5. Interpretation of Accounts**

The following figures have been extracted from the final accounts of Watson plc, a manufacturer of confectionary, for the year ended 31/12/2021. The company has an authorised capital of €1,100,000 made up of 500,000 ordinary shares at €1 each and 600,000 6% preference shares at €1 each.

<b>Trading and Profit and Loss Account for year ended 31/12/2021</b>	
	€
Sales	950,000
Costs of goods sold	(682,000)
Operating expenses for year	(192,000)
Interest for year	(35,000)
Net profit for year	41,000
Dividends paid	(18,000)
Retained profit	23,000
Profit and loss balance 01/01/2021	78,000
Profit and loss balance 31/12/2021	101,000

<b>Ratios and information for year ended 31/12/2020</b>	
Earnings per ordinary share	8.4c
Dividend per ordinary share	2.0c
Interest cover	1.9 times
Quick ratio	2.3:1
Market value of one ord. share	€1.48
Return on capital employed	4.56%
Gearing	60%
Dividend cover	4.2 times
Dividend yield	1.35%

<b>Balance Sheet as at 31/12/2021</b>			
	€	€	€
<b>Fixed Assets:</b>			
Intangible		300,000	
Tangible		487,000	787,000
4% Investments (market value 31/12/2021 €270,000)			250,000
			<u>1,037,000</u>
<b>Current Assets:</b>			
Closing stock	15,000		
Debtors	76,500		
Other current assets	20,000	111,500	
<b>Less Creditors: amounts falling due within 1 year</b>			
Trade creditors	21,000		
Other Creditors	11,500	(32,500)	<u>79,000</u>
			<u>1,116,000</u>
<b>Financed by:</b>			
7% Debentures (2028 secured)			500,000
<b>Capital and Reserves</b>			
Ordinary shares @ €1 each		365,000	
6% Preference shares @ €1 each		150,000	
Profit and loss balance 31/12/2021		101,000	616,000
			<u>1,116,000</u>

Market value of one ordinary share on 31/12/2021 is **€1.40**.

**(a) You are required to calculate the following for 2021:**

(where appropriate calculations should be made to **two** decimal places).

- (i) Cash purchases if the period of credit received from trade creditors is 3.6 months, and 20% of total purchases are cash purchases.
- (ii) Price earnings ratio.
- (iii) The return on shareholders' funds.
- (iv) Dividend cover.
- (v) Gearing.

(50)

**(b)** Advise the bank manager whether a loan of €500,000, on which a rate of 8% would be charged, should be granted to Watson plc. The loan is to finance the expansion of the business into the European market. Use relevant ratios, percentages and other information to support your answer.

(40)

**(c)** The gross profit percentage of Watson plc in 2020 was 36%.

- (i) Calculate the gross profit percentage for Watson plc in 2021.
- (ii) Give possible reasons for the change in gross profit percentage in 2021.
- (iii) Outline how a company could improve their gross profit percentage.

(10)

**(100 marks)**