

SECTION 2 (200 marks)Answer **two** questions**5. Interpretation of Accounts**

The following figures have been extracted from the final accounts of O'Malley Ltd, a retailer in the fast food industry, for the year ended 31/12/2022. The company has an authorised capital of €750,000 made up of 550,000 ordinary shares of €1 each and 200,000 4% preference shares of €1 each. O'Malley Ltd has already issued 450,000 ordinary shares and 100,000 4% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2022		Ratios and information for year ended 31/12/2021	
	€		
Sales	956,000	Earnings per ordinary share	23c
Costs of goods sold	(560,000)	Dividend cover	2.57 times
Operating expenses for year	(260,000)	Market value of one ord. share	€1.25
Interest for year	<u>(32,000)</u>	Return on capital employed	14.28%
Net profit for year	104,000	Gearing	35%
Dividends paid	<u>(40,000)</u>	Interest cover	7.12 times
Retained profit	64,000	Quick Ratio	1.5:1
Profit and loss balance 01/01/2022	<u>14,000</u>	Price earnings ratio	5.43 times
Profit and loss balance 31/12/2022	<u>78,000</u>		

Balance Sheet as at 31/12/2022		
	€	€
Fixed Assets		670,000
Investments (market value 31/12/2022, €310,000)		<u>300,000</u>
		970,000
Current Assets (including stock €42,000)	140,000	
Less Creditors: amounts falling due within 1 year		
Trade creditors	(50,000)	
Other creditors	<u>(32,000)</u>	<u>58,000</u>
		<u>1,028,000</u>
Financed by:		
8% Debentures (2026 secured)		400,000
Capital and Reserves		
Ordinary shares of €1 each	450,000	
4% Preference shares of €1 each	100,000	
Profit and loss balance	<u>78,000</u>	<u>628,000</u>
		<u>1,028,000</u>

Market value of one ordinary share on 31/12/2022 is **€1.30**.

- (a) You are required to calculate the following for 2022:**
(where appropriate calculations should be made to **two** decimal places).
- (i) The opening stock if the rate of stock turnover is 14 based on average stock
 - (ii) Return on capital employed
 - (iii) Price earnings ratio
 - (iv) Dividend cover
 - (v) Dividend yield. (50)
- (b)** Indicate whether the debenture holders 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) Distinguish between the terms liquidity and solvency when used in ratio analysis.
(ii) A rising liquidity ratio is a sign of prudent management. Briefly discuss. (10)
- (100 marks)**