
Fauci PLC

Interpretation of Accounts (Ratios)

2021

Shareholders

Part B - Comments

SHAREHOLDERS

Remember to use the following headings and ratios when commenting on part B. These will be used from a **shareholder's point of view**

Performance		State of Affairs			Prospectus	
Profitability	Dividend Policy	Liquidity	Gearing	Investment policy	Sector	Share performance
1. ROCE	1. Dividend Cover	1. Acid Test	1. Gearing	1. Investment Policy	1. Sector	1. EPS
2. EPS	2. DPS		2. Interest Cover			2. P/E Ratio
	3. Dividend Yield					3. Market Price
	4. Dividend Pay out					

Try to use the following sentence to help you remember the headings for shareholder comments

Paul Does Landscaping Gardening In Spring & Summer

NOTE

You might have to calculate some ratios still for part B - calculate them quickly using your calculator and make a record of the figure (You will be awarded 2 marks for each additional ratios that is calculated outside of the ratios from Part A)

Remember a shareholder is interested in the shares and dividends

Exam Tip

Each comment should have the following parts

1. Compared to two years (this year and last year or projected year)
2. Must say if it is an **improvement** or **disimprovement** and a **positive** or **negative** trend
3. Would the party (shareholder, bank manager or debenture holder) be **satisfied** or **dissatisfied** and why
4. Must include the phrases that are in bold in this document - don't para phrase as these are the common phrases used in the marking schemes.

PERFORMANCE

PROFITABILITY

ROCEQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Say if the company is profitable - compare to risk free investments
4. Compare to debenture & preference rates
5. Would shareholders be satisfied/dissatisfied?

Template

1. In _____ the ROCE is ____ %. In _____ the ROCE was ____%
2. This is an improvement / dis-improvement of ____ % and is a positive / negative trend
3. **The company is profitable / not profitable as the return is higher /lower than risk free investment of 0-1%**
4. **It is also above /below the debenture rate interest of ____% and above /below Preference share capital rate of ____%**
5. **Shareholders would be satisfied / not satisfied - as the company is making efficient / inefficient use of its resources available to them**

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggest Solution (2021 - Fauci PLC)

1. In 2020 the ROCE is 9.5%. In 2019 the ROCE was 9.07%
2. This is an improvement of .47% and is a positive trend
3. **The company is profitable as the return is higher than risk free investment of 0-1%**
4. **It is also above the debenture rate interest of 8% and preference share capital rate of 9%**
5. **Shareholders would be satisfied - as the company is making efficient use of its resources available to them**

Tip – MUST include the text that is in bold

EPSQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/dissatisfied?

Template

1. In _____ the EPS is _____c. In _____ the EPS was _____c
2. This is an improvement / dis-improvement of _____ c and is a positive / negative trend
3. **Shareholders would be satisfied / dis-satisfied with this as it indicates the profit in cents coming from shares and how well / badly shareholders' investment is used**

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested solution (2021 - Fauci PLC)

1. In 2020 the EPS is 15c. In 2019 the EPS was 16c
2. This is a dis-improvement of 1c and is a negative trend
3. Shareholders would be dis-satisfied with this as it indicates the profit in cents coming from shares and how well / badly shareholder investments is used over the years

Tip – MUST include the text that is in bold

DIVIDEND POLICY

Dividend CoverQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/dissatisfied?

Template

1. In _____ the Dividend cover is _____ times, In _____ the Dividend cover was _____ times
2. **This is an improvement / dis - improvement and is a positive / negative trend. It means more / less profit is being retained for expansion purpose and repayment of loans**
3. **Shareholders would be satisfied / dis - satisfied with as there is enough / they would like to see more profits being retained for expansion purposes and repayment of loans**

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested solution (2021 - Fauci PLC)

Tip – MUST include the text that is in bold

1. In 2020 the Dividend cover is 7.5 times, In 2019 the Dividend cover was 2.5 times
2. **This is an improvement and is a positive trend. It means more profit is being retained for expansion purpose and repayment of loans**
3. **Shareholders would be satisfied with as there is enough profits being retained for expansion purposes and repayment of loans**

Dividend per Share (DPS)**Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

Template

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

1. In _____ the DPS is ____c. In _____ the DPS was _____c
2. This is an improvement / dis-improvement of _____c. This is a positive / negative trend
3. **Shareholders would satisfied / dis - satisfied with this in the short terms as it indicates how much dividend they will receive.**

Suggested Solution (2021 - Fauci PLC)

Tip – MUST include the text that is in bold

4. In 2020 the DPS is 2c. In 2019 the DPS was 6.4c
5. This is a dis-improvement of 4.4c. This is a negative trend
6. **Shareholders would dis-satisfied with this in the short terms as it indicates how much dividend they will receive**

Dividend Yield**Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. compare to risk free investments
4. Compare to debenture & preference rates

5. Would shareholders be satisfied/Dissatisfied?

Template

1. In _____ the Dividend yield is _____ %. In _____ the Dividend yield was _____%
2. This is an Improvement / dis-improvement of _____ % and is a positive / negative trend
3. It is higher / lower than risk free investment of between _____%
4. This is also higher / lower than debentures of _____% and the preference share of _____%
5. Shareholders would be satisfied / dissatisfied with this as the company will find it easy / difficult to pay out dividends

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. In 2020 the Dividend yield is 1.1%. In 2019 the Dividend yield was 4%
2. This is a slight dis-improvement of 2.9% and is a negative trend
3. It is still higher than risk free investment of between 1-2%
4. This is also lower than debentures of 8% and the preference share of 9%
5. Shareholders would be dissatisfied with this as the company will find it difficult to pay out dividends

Tip – MUST include the text that is in bold

Dividend Pay-out

Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

Template

1. In _____ the Dividend pay-out is _____%. In _____ the
2. Dividend pay-out was _____%
3. This is an improvement / dis-improvement and a positive / negative trend
4. Shareholders would like to see this closer to 50% and would be satisfied / dissatisfied with this.

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. In 2020 the Dividend pay-out is 13.33%. In 2019 the Dividend pay-out was 40%
2. This is a dis-improvement and a negative trend
3. Shareholders would like to see this closer to 50% and would be dissatisfied with this.

Tip – MUST include the text that is in bold

Note – This can also be included under Profitability.

Note - Dividend Pay-Out

1. Dividend pay-out should be less than 50% for Debenture holders to be satisfied.
1. If above 50% - they are paying out too much dividend - this means that debenture holders will not be happy as the company is not retaining enough money for expansion and paying interest.
2. If below 50% - Debenture holders would be happy as the company should have enough retained for expansion and paying interest.
3. The formula to calculate Dividend payout is = $DPS/EPS \times 100/1 = \%$

Exam Tip

Under dividend policy must have

1. Dividend cover
2. Dividend yield
3. Dividend Per Share

I would also include Dividend payout as you will not know if marks will be given in a certain year. It is better to have it included than not

STATE OF AFFAIRS

LIQUIDITY

Acid Test RatioQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend (compare to recommended ratio 1:1)
3. Does it have a liquidity problem - can they pay debts in the short term
4. Would shareholders be satisfied/dis-satisfied

Template

1. In _____ the acid test ratio was _____. In 2019 the acid test ratio was _____
2. This is an improvement / Dis-improvement of _____c and is **above the recommended ratio of 1:1**
3. _____ PLC **does / does not** have a liquidity problem and are able / not able to pay their debts as they fall due in the **short term**. This is because they have €_____ in **liquid assets** for every euro it owes in the short term
4. Shareholders will be satisfied / dissatisfied as _____ PLC will / will not have problems paying out dividends or other short terms debts as they fall due.

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. In 2020 the acid test ratio was 2.49:1. In 2019 the acid test ratio was 1.8:1
2. This is an improvement of .69c and is above the recommended ratio of 1:1
3. Fauci PLC does not have a liquidity problem and are able to pay their debts as they fall due in the short term. This is because they have €2.49 in liquid assets for every euro it owes in the short term
4. Shareholder will dissatisfied as Fauci PLC will not have problems paying out dividends or other short terms debts as they fall due
5. However Fauci's liquidity figures are too conservative. Too much capital is tied up in Debtors and is unavailable for other purposes.

Tip – MUST include the text that is in bold

GEARINGGearingQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend and is the company a lowly/highly geared company.
3. Does it depend on outside borrowing
4. Would Shareholders be satisfied/dis-satisfied
5. How is the business financed

Template

1. In ____ the gearing ratio is ____%. In ____ the gearing ratio was ____%
2. This is an improvement / dis - improvement and is a positive / negative trend. **But the company is a Lowly / highly geared company**
3. This means the company is dependent / less dependent on outside borrowing and would appear to be less / more of a risk from outside investors.
4. Shareholders would be satisfied / dis-satisfied as the business is now less / more dependent on outside borrowing
(However, if using the Debt to equity ratio it is a negative / positive trend as it has improved / dis-improved from ____% to ____% this is a positive / negative trend)
5. The business is highly / lowly geared and is financed more by debt than by equity / equity than be debt

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. In 2020 the gearing ratio is 56.36%. In 2019 the gearing ratio was 62%
2. This is an improvement and is a positive trend. **But the company is a highly geared company**
3. This means the company is less dependent on outside borrowing and would appear to be less of a risk from outside investors.
4. Shareholders would be satisfied as the business is now less dependent on outside borrowing but there would appear to be significant risk

Tip – MUST include the text that is in bold

to the firm from outside investors.

(However, if using the Debt to equity ratio it is a negative trend as it has disimproved from 62% to 129.15%% this is a negative trend)

5. The business is highly geared and is financed more by debt than by equity.

Interest Cover

Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend compare to the recommended ration of 3:1
3. What does it mean - is there enough money for expansion, paying dividends and interest
4. Would shareholders be satisfied/dis-satisfied
5. Make reference to when the debenture will be paid off

Template

1. In ____ the Interest Cover is ____ times. In ____ the interest cover was ____ times
2. This is an improvement / dis-improvement and is a positive / negative trend **and is above / below the recommended ration of 3:1**
3. This means the firm has more / less money available for expansion, paying dividends and paying interest/loans
4. Shareholders would be satisfied / dis-satisfied with this
5. The Debentures of €_____ are not listed for repayment until _____. _____ plc had enough time to put aside resources to be able to repay these when the time comes. The bank account is / is not overdrawn, and Debtors owe €_____. _____ PLC should / should not follow up on this

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. In 2020 the Interest Cover is 2.95 times. In 2019 the interest cover was 3.2 times
2. This is a dis-improvement and is a negative trend **and is below the recommended ratio of 3:1**

Tip – MUST include the text that is in bold

3. This means the firm has less money available for expansion, paying dividends and paying interest/loans
4. Shareholders would be dis-satisfied with this
5. However, the Debentures are not listed for repayment until 2030. Fauci plc had enough time to put aside resources to be able to repay these when the time comes.
The bank account is overdrawn yet Debtors owe €174,000. Fauci should follow up on this.

Investment Policy

Questions to answer

1. What is the investment policy last year what is it now
2. Is this an improvement/dis-improvement, positive or negative trend.
3. Does this mean good / poor management of resource available to management
4. Would shareholders be satisfied/dis-satisfied

Template

1. In _____ the investment is _____. In _____ the investments were _____
2. This is an improvement / dis-improvement and is a positive / negative trend
3. This means effective / ineffective use by management of resource available to them
4. Share holder would be satisfied / dis-satisfied with this

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 Fauci PLC)

1. No investment given in this question this year so no need to complete

PROSPECTS

SECTOR

Sector

Questions to answer

1. Say what sector the business is
2. Say what the short-term prospects are and why
3. Say what the long-term prospects are and why

Exam Tip – MUST have a short and long term prospects is and why. Examples include – war, fuel, Brexit, inflation. It can be negative or positive

Template

1. _____ plc is in the _____ industry.
2. In the **short term prospects** this industry is growing / not growing as more _____

3. In the long term prospects this industry is growing / not growing as more _____

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. Fauci plc is in the computer security industry.
2. In the **short term prospects** this industry is growing as more people work from home increasing the need for computer security systems.
3. In the **long term prospects** the economic recovery is uncertain, and the firm is likely to face competition and takeover from large multinational competitors.

Tip – MUST include the text that is in bold

SHARE PERFORMANCE

The price earnings ratio

Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

Template

1. In _____ the P/E Ratio is _____ years. In _____ the P/E ratio was _____ years
2. This is an improvement / dis-improvement of _____ years, **meaning it will take _____ years to make back the market price of the share at current performance levels.**
3. **Shareholders will be satisfied / dis - satisfied with this as they will recover their investment is a shorter / longer time frame**

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. In 2020 the P/E Ratio is 10 years. In 2019 the P/E ratio was 12 years
2. This is improvement of 2 year, **meaning it will take 10 years to make back the market price of the share at current performance levels.**
3. **Shareholders will be satisfied with this as they will recover their investment is a shorter time frame**

Tip – MUST include the text that is in bold

Market Price Per Share**Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

Exam Tip – If the company is PLC use the words 'stock market' but if the company is LTD use the words 'market confidence'

Template

1. In _____ the MPS is _____ c. in _____ the MPS was _____ c
2. This is an improvement / dis-improvement of _____c and is a positive / Negative trend
3. **Shareholders would satisfied / dis-satisfied with this as it indicates confidence / lack of confidence in the firm by the stock market / market**

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. In 2020 the MPS is 1.80. in 2019 the MPS was 1.60
2. This is an improvement of 20c and is a positive trend

Tip – MUST include the text that is in bold

3. Shareholders would be satisfied with this as it indicates confidence in the firm by the stock market.

Overall**Question to answer**

1. Say yes or no if the shareholder would be satisfied with the performance, state of affairs and prospects of the company.

Exam Tip – MAKE SURE to include this – as students usually leave it out losing out on up to 4 marks

Template

1. **Yes / No the shareholder would be satisfied / dis-satisfied with the performance, state of affairs and prospects of the company.**

Tip – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2021 - Fauci PLC)

1. **Yes, the shareholders would be satisfied with the performance, state of affairs and prospects of the company.**

Tip – MUST include the text that is in bold