

---

# O'Malley PLC

---

---

## Interpretation of Accounts (Ratios)

---

---

### 2023

---

---

### Debentures

---

---

### Part B - Comments

---

DEBENTURES
------------

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

Performance		State of Affairs			Prospectus	
Profitability	Dividend Policy	Liquidity	Gearing	Security	Sector	
1. ROCE	1. Dividend Cover	1. Acid Test	1. Gearing	1. Security	2. Sector	
1. EPS	2. Dividend Pay out		2. Interest Cover			

Try to use the following sentence to help you remember the headings for Debenture comments -  
**Patricia Doyle Loves Grading In School**

NOTE

You might have to calculate some ratios still for part B - calculate them quickly using your calculator and make a record of the figures.

**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 not para phrase as these are the common phrases used in the marking schemes

## PERFORMANCE

## PROFITABILITY

ROCEQuestions to answer

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

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 than risk free investment of 0-2%*
4. The company is borrowing at a rate of \_\_\_\_% (debenture) and getting a return *higher / below this - why borrow at a rate higher than the return*. Preference share capital has a rate of \_\_\_\_%. The company *is / is not making effective use of resources*.
5. Debentures holders would be *satisfied / dissatisfied* - as the company is making *more / less efficient 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

Suggested Solution (2023 - O'Malley LTD)

1. In 2022 the ROCE is 13.23%. In 2021 the ROCE was 14.8%
2. This is a *dis-improvement* of 1.05% and is a *negative trend*.
3. The company is profitable as the return is higher than risk free investment of 0-2%
4. The company is borrowing at a rate of 8% (debenture) and getting a return *higher*. The company *is not making effective use of resources*. The preference shares capital rate of 4%
5. Debenture holders would be *dis-satisfied* - as the company is making *less efficient use of its resources available to them*

**Tip** - MUST include the text that is in bold

Earnings Per shareQuestions to answer

1. Say what you see - compared to previous years.
2. Is this an improvement/dis-improvement, positive or negative trend.
3. Would debenture holder 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. Debenture holders would be *satisfied / dissatisfied* as the management is *using / not using* the resource available to them efficiently.

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

Suggested Solution (2023 - O'Malley LTD)

1. In 2022 the EPS is 22.22 c. In 2021 the EPS was 23 c
2. This is a *dis-improvement* of .78 c and is a *negative trend*.
3. Debenture holders would be *dissatisfied* as the management is not using **the resources** available to them efficiently.

**Tip** - MUST include the text that is in bold

<b>DIVIDEND POLICY</b>
------------------------

Dividend CoverQuestions to answer

1. Say what you see - compared to previous years.
2. Is this an improvement/dis-improvement, positive or negative trend.
3. Would debenture holders 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 purposes and repayment of loans.
3. Debenture holders 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 (2023 - O'Malley LTD)**

1. In 2022 the Dividend cover is 2.78 times, In 2021 the Dividend cover was 2.57 times.
2. This is an *improvement* and is a *positive* trend. It means *more profit is being retained* for expansion purposes and repayment of loans.
3. Debenture holders would be *satisfied* with this.

**Tip** - MUST include the text that is in bold

**Dividend Pay-out****Questions to answer**

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

**Template**

1. In \_\_\_\_\_ the Dividend payout is \_\_\_\_%. In \_\_\_\_\_ the Dividend payout was \_\_\_\_\_%
2. This is an *improvement* / *dis-improvement* of \_\_\_\_c. This is a *positive* / *negative* trend.
3. Debenture holders would be *satisfied* / *dis - satisfied* with this in the short terms as it indicates how much the company *is* / *is not* retaining for expansion and paying interest.

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

**Suggested Solution (2023 - O'Malley LTD)**

1. In 2022 the dividend pay-out is 35.97%. In 2021 the dividend pay-out was 38.9%
2. This is an *improvement* and a *positive* trend.
3. Debenture holders would be *satisfied* with this in the short term as it indicates how much money the company *is* retaining for expansion and paying interest

**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.
2. 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.
3. If below 50% - Debenture holders would be happy as the company should have enough retained for expansion and paying interest.
4. The formula to calculate Dividend payout is =  $DPS/EPS \times 100/1 = \%$

## STATE OF AFFAIRS

## LIQUIDITY

Acid Test RatioQuestions to answer

1. Say what you see - compared to previous years.
2. Is this an improvement/dis-improvement, positive or negative trend (compare to recommended ratio)
3. Does it have a liquidity problem - can they pay debts in the short term.
4. Would Debenture holders be satisfied/dis-satisfied.
5. Will the company be able to pay back the debt if the trends continue.

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

Template

1. In \_\_\_\_\_ the acid test ratio is \_\_\_\_\_. In \_\_\_\_\_ the acid test ratio was \_\_\_\_\_
2. This is an *improvement / Dis-improvement* of \_\_\_\_\_c and is *above / below* 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. Debenture Holders will be *satisfied / dis - satisfied* as \_\_\_\_\_PLC *will / will not* have problems paying out dividends or other short-term debts as they fall due.
5. If this trend continues, the ability to pay interest *would / would not* come under pressure and funds *would / would not* be available to invest for the purpose of repaying the loan.

**Suggested Solution (2023 - O'Malley LTD)**

**Tip** - MUST include the text that is in bold

1. In 2022 the acid test ratio was 1.20:1. In 2021 the acid test ratio was 1.5:1
2. This is a dis-improvement of .30 c but is above the recommended ratio of 1:1
3. O'Malley LTD does not have a liquidity problem and will be able to pay their debts as they fall due in the short term. This is because they have €1.20 in liquid assets for every euro it owes in the short term.
4. Debenture holders will be satisfied as O'Malley Ltd will not have problems paying out dividends or other short-term debts as they fall due
5. If this trend continues, the ability to pay interest would come under pressure and funds would not be available to invest for the purpose of repaying the loan.

## GEARING

### Gearing

#### Questions to answer

1. Say what you see - compared 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 debenture holders be satisfied/dis-satisfied.

#### 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* and is finance more by *debt / equity* than by *equity / debt*
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. Debenture holders would be *satisfied / dis-satisfied* as the business is now *less / more dependent* on outside borrowing and would will be paying *higher / lower* interest payment,
4. There is a *less significant / significant* risk to the firm from outside investors.

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

**Suggested Solution (2023 - O'Malley LTD)**

1. In 2022 the gearing ratio is 48.64 %. In 2021 the gearing ratio was 35 %
2. This is a *dis-improvement* and is a *negative trend*. The company is a *lowly geared* company. But the company is a *lowly geared* company and is finance more by *equity* than by *debt*
3. This means the company is *less dependent* on outside borrowing and would appear to be *more of a risk* from outside investors. Debenture holders would be *satisfied* as the business is now *less dependent* on outside borrowing and would will be paying *lower interest payment*,
4. There is a *less significant risk* to the firm from outside investors.

**Tip** - MUST include the text that is in bold

**Interest Cover****Questions to answer**

1. Say what you see - compared to previous years.
2. Is this an improvement/dis-improvement, positive or negative trend. It is above/below the recommended ratio of 3:1
3. What does it mean - is there enough money for expansion, paying dividends and interest.
4. Would debenture holders be satisfied/dis-satisfied.
5. Make reference to when the debenture will be paid off.
6. Also make reference to the bank account and debtors

**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*. It is *above / below* the recommended ratio of **3:1**
3. This means the firm has *more / less* money available for expansion, paying dividends and paying interest/loans.
4. Debenture holders would be *satisfied / dissatisfied* with this. The company is *still / not* able to meet its interest commitments, but the *worsening / improving* trend combined with *good / poor* liquidity would concern debenture holders.

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

5. The Debentures are not listed for repayment until \_\_\_\_\_. \_\_\_\_\_ plc has enough / not enough time to put aside resources to be able to repay these when the time comes.
6. The bank account is / is not overdrawn, and Debtors owe € \_\_\_\_\_. \_\_\_\_\_ PLC should / should not follow this up.

### Suggested Solution (2023 - O'Malley)

1. In 2022 the Interest Cover is 4.25 times. In 2021 the interest cover was 7.12 times.
2. This is a *dis-improvement* and is a *negative trend* but is above the recommended ratio of 3:1
3. This means the firm has *less money* available for expansion, paying dividends and paying interest/loans.
4. Debenture holders would be *dissatisfied* with this. The company is *still* able to meet its interest commitments, but the *worsening trend* combined with *poor liquidity* would concern debenture holders.
5. The Debentures are not listed for repayment until 2026. O'Malley LTD has enough time to put aside resources to be able to repay these when the time comes.

**Tip** - MUST include the text that is in bold

## SECURITY

### Security

#### Questions to answer

1. Say what the fixed assets value is, and the depreciation policy should be questioned.
2. Look at the investment have they improve / dis-improved. Would debenture holders be satisfied / dissatisfied.
3. Is there an existing loan (Debenture), does the value of the tangible asset cover the value. Is there security for a new loan.
4. If the tangible assets are high, they should be questioned.

Template

1. Tangible fixed assets including investment are valued at € \_\_\_\_\_. The depreciation policy should be questions to ascertain the true value of tangible assets.
2. The investment cost € \_\_\_\_\_ but now has a value of € \_\_\_\_\_. This shows *efficient / inefficient* investment decision by management. Debenture holders would be *dissatisfied / satisfied* with this.
3. There is an existing loan (Debenture) of € \_\_\_\_\_ to be repaid in \_\_\_\_\_. The value of the tangible assets are *adequate / not adequate* to cover this loan (Debenture). There *is / is no* security for this loan (Debenture)
4. The intangible assets figure should be *questioned / not questioned* as they *are / are not* generating income for a high amount (Only included if the intangible figure is high)

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

Suggested Solutions (2023 - O'Malley LTD)

1. Tangible fixed assets including investment are valued at **€970,000**. The depreciation policy. should be questions to ascertain the true value of tangible assets.
2. The investment cost **€300,000** but now has a value of **€310,000**. This shows *efficient* investment decision by management. Debenture holders would be *satisfied* with this.
3. There is an existing loan (Debenture) of **€400,000** to be repaid in **2026**. The value of the tangible assets in *adequate* to cover this loan (Debenture). There *is* security for this loan (Debenture)

**Tip** - MUST include the text that is in bold

## PROSPECTS

## SECTOR

SectorQuestions to answer

1. Say what sector the business is.
2. Say what the short-term goals are.
3. Say what the long-term goals are.

Template

1. \_\_\_\_\_ plc is in the \_\_\_\_\_ sector / industry.
2. **In the short term this industry is / is not growing as more** \_\_\_\_\_  
\_\_\_\_\_
3. **In the long term this industry is / is not growing as** \_\_\_\_\_  
\_\_\_\_\_
- 4.

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

Suggested Solution (2023 - O'Malley LTD)

1. **O'Malley LTD is a retailer in the fast-food industry.**
2. **In the short term this industry is *not growing* as people become more health conscious and move away to healthier foods.**
3. **In the long term, this industry is *not growing* as it is a highly competitive industry with many well-known brands to compete against.**

**Tip** - MUST include the text that is in bold

**Note** - Make sure to a positive or negative for short term and long term prospectives

**OVERALL**

The debentures holders would be satisfied with the company. However, they would be concerned with the disimproving trends in certain parts of the company such as in profitability, liquidity and gearing.

**Note** - Always say if the party (debenture, shareholder, or bank manager) would be satisfied or not satisfied. Marks will be given for this and students leave it out