O'Malley PLC 2023 (Debentures)

## 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**.

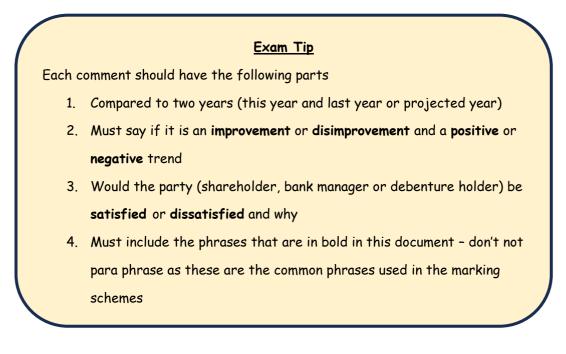
Performance			State of Affairs					Prospectus				
Profitability		Dividend		Liquidity		Gearing		Security		Sector		
			Policy									
1.	ROCE	1.	Dividend	1.	Acid	1.	Gearing	1.	Security	2.	Sector	
			Cover		Test							
1.	EPS	2.	Dividend			2.	Interest					
			Pay out				Cover					

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

Patricia Doyle Loves Grading In School

## <u>NOTE</u>

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



## O'Malley PLC 2023 (Debentures)

## PERFORMANCE

## PROTIFABILITY

## ROCE

#### Questions 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

### <u>Template</u>

1. In \_\_\_\_\_\_the ROCE is \_\_\_\_%. In \_\_\_\_the ROCE was \_\_\_\_%

<u>Tip</u> - Fill in the blank as per your workings and use the correct statement to complete your comment

- 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.

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

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

<u>Tip</u> - MUST include the text that is in bold

## O'Malley PLC 2023 (Debentures)

#### Earnings Per share

#### 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 debenture holder be satisfied/dissatisfied?

### <u>Template</u>

- 1. In \_\_\_\_\_ the EPS is \_\_\_\_c. In \_\_\_\_\_ the EPS was \_\_\_c
- 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.

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

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

## DIVIDEND POLICY

## **Dividend Cover**

#### 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 debenture holders be satisfied/dissatisfied?

#### <u>Template</u>

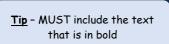
 1. In \_\_\_\_\_\_the Dividend cover is \_\_\_\_\_times, In \_\_\_\_\_the

 Dividend cover was \_\_\_\_\_\_times

<u>Tip</u> - Fill in the blank as per your workings and use the correct statement to complete your comment

- 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.

<u>Tip</u> - Fill in the blank as per your workings and use the correct statement to complete your comment



O'Malley PLC 2023 (Debentures)

Tip - MUST include the text

that is in bold

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

- In <u>2022</u> the Dividend cover is <u>2.78</u> times, In <u>2021</u> the Dividend cover was <u>2.57</u> 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.

## **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?

## <u>Template</u>

In \_\_\_\_\_the Dividend payout is \_\_\_\_%. In \_\_\_\_\_the Dividend payout was \_\_\_\_\_%

<u>Tip</u> - Fill in the blank as per your workings and use the correct statement to complete your comment

- 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.

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

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

<u>Tip</u> - MUST include the text that is in bold

<u>Note</u> - This can also be included under Profitability.

## O'Malley PLC

#### 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.
- 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 = %

## O'Malley PLC 2023 (Debentures)

## STATE OF AFFAIRS

## LIQUIDITY

## Acid Test Ratio

### Questions 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.

#### <u>Template</u>

 1. In \_\_\_\_\_\_the acid test ratio is \_\_\_\_\_. In \_\_\_\_\_the acid test ratio was

<u>Tip</u> - Fill in the blank as per your workings and use the correct statement to complete your comment

- 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)

- In <u>2022</u> the acid test ratio was <u>1.20:1</u>. In <u>2021</u> the acid test ratio was <u>1.5:1</u>
- 2. This is a <u>dis-improvement</u> of .30 c but is above the recommended ratio of 1:1
- <u>O'Malley</u> 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 €<u>1.20</u> in liquid assets for every euro it owes in the short term.
- 4. Debenture holders will be <u>satisfied</u> as <u>O'Malley</u> 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

#### <u>Gearing</u>

#### Questions to answer

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

#### <u>Template</u>

In \_\_\_\_\_the gearing ratio is \_\_\_\_%. In \_\_\_\_the gearing ratio was \_\_%

\_\_\_\_\_\_\_ the gearing \_\_\_\_\_\_\_ correct statement to complete your comment.

Tip - Fill in the blank as per

your workings and use the

- 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.

O'Malley PLC 2023 (Debentures)

Tip - MUST include the text

that is in bold

Tip - MUST include the text

that is in bold

#### Suggested Solution (2023 – O'Malley LTD)

- In <u>2022</u> the gearing ratio is <u>48.64</u> %. In <u>2021</u> the gearing ratio was <u>35</u> %
- 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.

#### 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 bnak acount and debtors

#### <u>Template</u>

 1. In \_\_\_\_\_\_the Interest Cover is \_\_\_\_\_times. In \_\_\_\_the

 interest cover was \_\_\_\_\_\_times

<u>Tip</u> - Fill in the blank as per your workings and use the correct statement to complete your comment.

- 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.

O'Malley PLC 2023 (Debentures)

- 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.
- The bank account is / is not overdrawn, and Debtors owe €\_\_\_\_. PLC should / should not follow this up.

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

- In <u>2022</u> the Interest Cover is <u>4.25</u> times. In <u>2021</u> the interest cover was <u>7.12</u> 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 <u>2026</u>. <u>O'Malley</u>LTD has enough time to put aside resources to be able to repay these when the time comes.

## SECURITY

#### <u>Security</u>

#### Questions to answer

- 1. Say what the fixed assets value is, and the depreciation policy should be questioned.
- Look at the investment have they improve / dis-improved. Would debenture holders be satisfied / dissatisfied.
- 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.

 $\underline{\text{Tip}} \text{ - MUST include the text} \\ \text{that is in bold}$ 

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#### <u>Template</u>

Tangible fixed assets including investment are valued at
 €\_\_\_\_\_. The depreciation policy should be

questions to ascertain the true value of tangible assets.

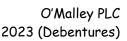
- The investment cost € \_\_\_\_\_ but now has a value of € \_\_\_\_\_. This shows efficient / inefficient investment decision by management. Debenture holders would be dissatisfied / satisfied with this.
- There is an existing loan (Debenture) of €\_\_\_\_\_to be repaid in \_\_\_\_\_
   \_\_\_\_. The 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 it the intangible figure is high)

#### Suggested Solutions (2023 - O'Malley LTD)

- Tangible fixed assets including investment are valued at €<u>970,000</u>. The depreciation policy. should be questions to ascertain the true value of tangible assets.
- The investment cost €<u>300,000</u> but now has a value of €<u>310,000</u>. This shows efficient investment decision by management. Debenture holders would be satisfied with this.
- 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)

<u>Tip</u> - Fill in the blank as per your workings and use the correct statement to complete your comment.

<u>Tip</u> - MUST include the text that is in bold



PROSPECTS	PR	os	PE	CT	's
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SECTOR							
Sector							
Questions 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.							
<u>Template</u>	<u>Tip</u> - Fill in the blank as per your workings and use the						
1plc is in thesector / industry.	correct statement to						
2. In the short term this industry is / is not growing as	complete your comment.						
more							
3. In the long term this industry is / is not growing as							
4.							
Suggested Solution (2023 - O'Malley LTD)	Tip - MUST include the text						
1. <u>O'Malley</u> LTD is a <u>retailer in the fast-food</u> industry.	that is in bold						
<ol> <li>In the short term this industry is not growing as people  </li> </ol>	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.							
madshy with many went known brands to compere agains							
<u>Note</u> - 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.

> <u>Note</u> - 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