Accounting Leaving Certificate Higher Level

Past Exam Questions on:

Interpretation of Accounts

Q5 2013

5. Interpretation of Accounts

The following figures have been taken from the Final Accounts of Dantzig plc, a manufacturer in food processing sector, for the year ended 31/12/2012. The company has an authorised capital of €700,000 made up of 600,000 ordinary shares at €1 each and 100,000 5% preference shares at €1 each. The firm has already issued 550,000 ordinary shares and all of the 5% preference shares.

Trading and Profit and Loss account for year ended 31/12/2012

	€
Sales	990,000
Costs of goods sold	(852,000)
Operating expenses for year	(91,000)
Interest	(16,000)
	31,000
Dividends paid	(25,000)
Retained Profit	6,000
Profit and Loss Balance 1/1/2012	20,000
Profit and Loss Balance 31/12/2012	26,000

Ratios and information for year ended 31/12/2011

Earnings per Ordinary Share	5.5c
Dividend per Ordinary Share	4.7c
Interest Cover	4 times
Quick Ratio	0.85 to 1
Return on Capital Employed	6.1%
Market value of an ordinary share	€0.90
Gearing	30%

Balance Sheet as at 31/12/2012	**€**	**€**
Fixed Assets		706,000
Investments (market value 31/12/2012 – €80,000)		180,000
		886,000
Current Assets (including Stock €31,500 and Debtors €90,000)	158,000	
Less Creditors: amount falling due within 1 year		
Trade Creditors	(168,000)	(10,000)
		876,000
Financed by		
8% Debentures (2015 secured)		200,000
Capital and Reserves		
Ordinary Shares @ €1 each	550,000	
5% Preference Shares @ €1 each	100,000	
Profit and Loss Balance	26,000	676,000
		876,000

Market value of one ordinary share €0.85 on **31/12/2012**.

(a) **You are required to calculate the following for 2012**: (where appropriate calculations should be made to **two** decimal places).

(i) The opening stock if the rate of stock turnover is 10 based on average stock.
(ii) The Earnings per Share
(iii) The Dividend Yield
(iv) How long it would take one Ordinary share to recover its value at present earnings?
(v) Interest cover (50)

(b) A friend of yours has been given the opportunity to buy 200,000 shares of the already issued shares in Dantzig plc at 80c each but before doing so asks your advice. She would be using money borrowed at a fixed rate of 8% per annum. What advice would you give? Use relevant ratios and other information to support your answer. (40)

(c) Dantzig plc is considering expansion by purchasing another food business. The following information for 2012 has been obtained on two possible purchases of similar companies:

	AB Foods	**XY Traders**
Return on Capital Employed	8%	6%
Current Ratio	3.2:1	1.9:1
Liquid (Acid Test) Ratio	0.6:1	1.3:1

Advise Dantzig plc which business, if any, should be purchased on the basis of the information provided. (10)

(100 marks)

Q5 2012

5. Interpretation of Accounts

The following are the figures for the year ended 31/12/2011 and the projected figures for the year ended 31/12/2012 of Glas plc, a manufacturer in the renewable energy industry. Glas plc has an authorised capital of €850,000 made up of 600,000 ordinary shares at €1 each and 250,000 6% preference shares at €1 each. The firm has already issued 300,000 ordinary shares and all the preference shares.

Trading and Profit and Loss account for year ended 31/12/2011

	€	€
Sales		790,000
Opening Stock	45,000	
Closing Stock	50,000	
Costs of goods sold		595,000
Gross Profit		195,000
Operating expenses for year		132,000
Net Profit		63,000
Interest		20,000
Dividends paid		25,000
Retained Profit		18,000
Profit and Loss Balance 01/01/2011		39,000
Profit and Loss Balance 31/12/2011		57,000

Projected Ratios for year ended 31/12/2012

Earnings per Ordinary Share	7c
Dividend per Ordinary Share	4.2c
Interest Cover	3 times
Quick Ratio	0.85:1
Price/earnings ratio	16:1
Return on Capital Employed	8.1%
Gearing	51%

Balance Sheet as at 31/12/2011

		€
Fixed Assets		650,000
Investments (market value 31/12/2011 €210,000)		200,000
		850,000
Current Assets	105,000	
Less Creditors: amounts falling due within 1 year		
Trade Creditors	(98,000)	7,000
		857,000
Financed by		
8% Debentures (2018 secured)		250,000
Capital and Reserves		
Ordinary Shares @ €1 each	300,000	
6% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	57,000	607,000
		857,000

Market Value of one Ordinary Share €1.15

(a) You are required to calculate the following:

(i) Cash purchases if the period of credit received from Trade Creditors is 2.5 months.
(ii) The Interest Cover.
(iii) The Dividend Cover
(iv) How long it would take one ordinary share to recover its value at present pay out rate.
(v) The projected market value of one share in **2012**. (50)

(b) Indicate if the ordinary shareholders would be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios and other information to support your answer. (35)

(c) The gross profit percentage in 2010 was 36%.
(i) Calculate the gross profit percentage for 2011.
(ii) Give 5 different explanations for the decrease/increase in 2011. (15)

(100 marks)

Q5 2011

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Sully plc, a company involved in the construction industry for the year ended 31/12/2010. The company has an authorised capital of €700,000 made up of 600,000 ordinary shares at €1 each and 100,000 5% preference shares at €1 each. The company has already issued 550,000 ordinary shares and all of the 5% preference shares.

Trading and Profit and Loss account for year ended 31/12/2010

	€
Sales	1,170,000
Costs of goods sold	(875,000)
Operating expenses for year	(230,000)
Interest	(19,200)
Net Profit for year	45,800
Dividends paid	(30,000)
Retained Profit	15,800
Profit and Loss Balance 1/1/2010	27,000
Profit and Loss Balance 31/12/2010	42,800

Ratios and information for year ended 31/12/2009

Earnings per Ordinary Share	10.5c
Dividend per Ordinary Share	5.6c
Interest Cover	5 times
Quick Ratio	0.70 to 1
Return on Capital Employed	8.1%
Market Value of one ordinary share	€0.95
Gearing	32%
Dividend Cover	1.9 times
Dividend Yield	5.9%

Balance Sheet as at 31/12/2010

	€	€
Fixed Assets		
Intangible	150,000	
Tangible	642,000	792,000
Investments (market value 31/12/2010 – €90,000)		150,800
		942,800
Current Assets (including Stock €80,400 and Debtors €45,000)	148,000	
Less Creditors: amount falling due within 1 year		
Trade Creditors	(158,000)	(10,000)
		932,800
Financed by		
8% Debentures (2014 secured)		240,000
Capital and Reserves		
Ordinary Shares @ €1 each	550,000	
5% Preference Shares @ €1 each	100,000	
Profit and Loss Balance	42,800	692,800
		932,800

Market value of one ordinary share at the end of 2010 was **€0.90**

Required

(a) Calculate the following for 2010:
- (i) The Opening Stock if the rate of stock turnover is 10 based on average stock
- (ii) The Gearing ratio
- (iii) The Earnings per Ordinary Share
- (iv) The Dividend Yield
- (v) How long it would take one ordinary share to recoup (recover) its 2010 market price based on present dividend payout rate? (50)

(b) Advise the bank manager if a loan of €400,000, on which an interest rate of 8% would be charged, should be granted to Sully plc for future expansion. Use relevant ratios, percentages and other information from above to support your answer. (40)

(c) Explain the limitations of ratio analysis. (10)

(100 marks)

Q5 2010

5. **Interpretation of Accounts**

The following figures have been extracted from the final accounts of Hebe plc, a manufacturer in the dairy industry. The company has an authorised capital of €600,000 made up of 500,000 ordinary shares at €1 each and 100,000 10% preference shares at €1 each. Hebe plc, has already issued 400,000 ordinary shares and 50,000 of the 10% preference shares.

Trading and Profit and Loss account for year ended 31/12/2009

		€
Sales		960,000
Opening stock	60,000	
Closing stock	65,000	
Costs of goods sold		(725,000)
Operating expenses for year		(140,000)
Interest for year		(30,000)
Net Profit for year		65,000
Dividends paid		(50,000)
Retained Profit		15,000
Profit and Loss Balance 01/01/2009		40,000 cr
Profit and Loss Balance 31/12/2009		55,000

Ratios and information for year ended 31/12/2008

Earnings per Ordinary Share	21c
Dividend per Ordinary Share	15c
Interest cover	4.7 times
Quick Ratio	1:1
Market Value of one Ordinary Share	€1.80
Return on Capital Employed	13%
Gearing	37%
Dividend cover	1.4 times
Dividend yield	8.3%

Balance Sheet as at 31/12/2009

			€
Intangible Assets			180,000
Tangible Assets			520,000
Investments (market value €95,000)			120,000
			820,000
Current Assets (Closing Stock €65,000 and Debtors 45,000)		110,000	
Trade Creditors	77,000		
Bank	48,000	(125,000)	(15,000)
			805,000
8% Debentures (2014/2015)			300,000
Issued Capital			
Ordinary Shares @ €1 each		400,000	
10% Preference Shares @ €1 each		50,000	
Profit and Loss Balance		55,000	505,000
			805,000

You are required to calculate the following for 2009:

(a) (i) The Interest Cover
(ii) The Cash Purchases if the average period of credit received from trade creditors is 2 months.
(iii) The Ordinary Dividend Cover
(iv) The Market Price if P/E is 10
(v) The Dividend Yield. (45)

(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) A friend of yours has been given the opportunity to buy ordinary shares in Hebe plc but before doing so asks your opinion. What advice would you give? Use ratios, percentages and any other information from the above to support your conclusions. (15)

(100 marks)

Q2 – 2009

5. **Interpretation of Accounts**

The following figures have been taken from the Final Accounts of Watson plc, a manufacturer in the construction industry for the year ended 31/12/2008. The company has an authorised capital of €600,000 made up of 500,000 ordinary shares at €1 each and 100,000 6% preference shares at €1 each. The firm has already issued 450,000 ordinary shares and all of the 6% preference shares.

Trading and Profit and Loss account for year ended 31/12/2008

	€
Sales	980,000
Costs of goods sold	(785,000)
Operating expenses for year	(125,000)
Interest	(25,000)
Net Profit for year	45,000
Dividends paid	(37,000)
Retained Profit	8,000
Profit and Loss Balance 1/1/2008	40,000
Profit and Loss Balance 31/12/2008	48,000

Ratios and information for year ended 31/12/2007

Earnings per Ordinary Share	19.05c
Dividend per Ordinary Share	12.7c
Interest Cover	4 times
Quick Ratio	0.98 to 1
Return on Capital Employed	10.6%
Market value of an ordinary share	€1.30
Gearing	34%

Balance Sheet as at 31/12/2008

	€	€
Fixed Assets		670,000
Investments (market value 31/12/2008 – €140,000)		190,000
		860,000
Current Assets (including Stock €29,500 and Debtors €100,000)	147,000	
Less Creditors: amount falling due within 1 year		
Trade Creditors	(159,000)	(12,000)
		848,000
Financed by		
10% Debentures (2012 secured)		250,000
Capital and Reserves		
Ordinary Shares @ €1 each	450,000	
6% Preference Shares @ €1 each	100,000	
Profit and Loss Balance	48,000	598,000
		848,000

Market value of one ordinary share €1.20

You are required to calculate the following for 2008:

(a) (i) The Cash Sales if the period of credit given to debtors is 2 months
(ii) Return on Capital employed
(iii) The Earnings per Share
(iv) The Dividend Yield
(v) How long it would take one Ordinary share to recover its value at present payout rate? (45)

(b) Indicate if the Ordinary shareholders 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) Having assessed Watson plc what actions would you advise the company to take? (15)

(100 marks)

Q5 - 2004

5. **<u>Interpretation of Accounts</u>**

The following figures have been extracted from the final accounts of Coulter Ltd, a service provider in the leisure industry, whose Authorised Capital is €900,000, made up of 650,000 Ordinary Shares at €1 each and 250,000 10% Preference Shares at €1 each.

Trading and Profit and Loss account for year ended 31/12/2003

		€
Sales		1,100,000
Costs of goods sold		
Stock 1/1/2003	63,000	
Purchases	751,000	
Stock 31/12/2003	(74,000)	(740,000)
Total operating expenses for the year		(208,000)
Interest for year		(15,000)
Net Profit for year		137,000
Proposed dividends		(66,000)
Retained profits for year		71,000

Ratios and figures for year ended 31/12/2002

Earnings per ordinary share	22c
Dividend per ordinary share	2.9c
Quick ratio	0.9 to 1
Market value of ordinary share	€1.75
Return on capital employed	14%
Return on equity funds	19%
Interest cover	9 times
Gearing	40%

Balance Sheet as at 31/12/2003

Intangible Assets	140,000		
Fixed Assets	760,000	900,000	
Current Assets	170,000		
Current Liabilities			
Trade creditors	(35,000)		
Proposed dividends	(66,000)	69,000	
			969,000
9% Debentures 2008/2009		160,000	
Issued capital			
500,000 Ordinary shares @ €1 each	500,000		
200,000 10% preference shares @ €1 each	200,000		
Profit and loss balance	109,000	809,000	
			969,000

You are required to answer the following:

(a) (i) Cash purchases if the average period of credit received from creditors is 1.5 months.
(ii) Earnings per share
(iii) How long it would take one ordinary share to recoup (recover) its 2002 market price based on present dividend pay out rate.
(iv) The dividend yield for **2002.**
(v) The market value of one ordinary share **in 2003** if the price earnings ratio is 9. (50)

(b) Assume that the company wishes to raise further finance by issuing the remaining shares at €2 per share. Would you as a shareholder be prepared to purchase these shares? Outline your reasons for purchasing/not purchasing some shares. Your answer should include all relevant information included in the above figures and references to any other information that you consider necessary. (50)

(100 marks)

Q5 - 2005

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Equip Ltd., a manufacturer of sports equipment, for the year ended 31/12/2004.

Trading and Profit and Loss account for year ended 31/12/2004

	€
Sales	950,000
Costs of goods sold	740,000
Operating expenses for year	120,000
Interest for year	18,000
Net Profit for year	72,000
Proposed dividends	52,000
Profit and Loss Balance 1/1/2004	42,000
Profit and Loss Balance 3 1/12/2004	62,000

Ratios and information for year ended 31/12/2003

Earnings per Ordinary Share	1 3c
Dividend per Ordinary Share	7.5c
Current Ratio	1.8:1
Quick Ratio	1.2:1
Market Value of one Ordinary Share	€2
Return on Capital Employed	9.5%
Return on Equity Funds	12%

Balance Sheet as at 31/12/2004

		€	
Intangible Assets		90,000	
Tangible Assets		480,000	
Investments (market value €90,000)		100,000	
			670,000
Current Assets (inc. Closing Stock €110,000)	354,000		
Trade Creditors	130,000		
Proposed Dividends	52,000	172,000	
			842,000
10% Debentures (2006/2007)	180,000		
Issued Capital			
Ordinary Shares @ €1 each	400,000		
8% Preference Shares @ €1 each	200,000		
Profit and Loss Balance	62,000	842,000	

Market Value of one Ordinary Share €2.08

You are required to answer the following:

(a) (i) The return on capital employed in 2004.
(ii) The opening stock if the rate of stock turnover is 8 (based on average stock).
(iii) The earnings per ordinary share in 2004.
(iv) How long would it take one ordinary share to recover its 2004 market price (assume current performance is maintained)?
(v) The ordinary dividend cover in 2004. (45)

(b) Indicate if the ordinary shareholders 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) The gross profit percentage for 2003 was 32%. Give 5 different explanations for the increase/decrease in 2004. (15)

(100 marks)

Q5 - 2006

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Sawgrass Plc., a manufacturer in the dairy industry, for the year ended 31/12/2005. The company has an Authorised Capital of €500,000 made up of 400,000 €1 Ordinary shares and 100,000 6% Preference shares.

Trading and Profit and Loss account for year ended 31/12/2005

	€
Sales	890,000
Cost of sales	(695,000)
Total operating expenses for the year	(120,000)
Interest for year	(20,000)
Net Profit for year	55,000
Proposed dividends	(48,000)
Retained profit for year	7,000
Profit and Loss balance 1/1/2005	40,000cr.
Profit and Loss Balance 3 1/12/2005	47,000

Ratios and figures for year ended 31/12/2004

Interest cover	5 times
Quick ratio	1.2:1
Earnings per ordinary share	1 9c
Return on capital employed	14.2%
Market value of ordinary share	€2.10
Gearing	35%
P/E ratio	10 years
Dividend per ordinary share	1 8c

Balance Sheet as at 31/12/2005

	€	€
Intangible Assets	150,000	
Fixed Assets	320,000	
Investments (market value €90,000)	105,000	575,000
Current Assets (including Stock €45,000 and Debtors €48,000)	98,000	
Creditors trade	(28,000)	
Proposed dividends	(48,000)	22,000
		597,000
10% Debentures (2010/2011)		200,000
Issued capital		
300,000 Ordinary shares @ €1 each	300,000	
50,000 6% Preference shares @ €1 each	50,000	
Profit and Loss balance.	47,000	397,000
		597,000

Market value of one ordinary share is €2.

You are required to provide answers to the following:

(a) Calculate the following for the year 2005:
1. Interest cover.
2. Earnings per share.
3. Cash sales if the average period of credit given to debtors is 2 months.
4. How long it would take one ordinary share to recoup (recover) its 2005 market price based on present dividend pay out rate.
5. Dividend yield on ordinary shares **for 2004**. (45)

(b) Indicate whether the Debenture holders would be satisfied with the policies and state of affairs of the company. Use available relevant information to support your answer. (40)

(c) What actions would you advise the company to take? (15)

(100 marks)

Q5 - 2007

5. **Interpretation of Accounts**

The following are the actual figures for the year ended 31/12/2006 and the projected figures for the year ended 31/12/2007 of Mila Plc., a manufacturer in the pharmaceutical industry. Mila Plc. has an authorised capital of €900,000 made up of 650,000 ordinary shares at €1 each and 250,000 6% preference shares at €1 each. The firm has already issued 325,000 ordinary shares and all the preference shares.

Trading and Profit and Loss account for year ended 31/12/2006

	€	€
Sales		820,000
Opening Stock	50,000	
Closing Stock	55,000	
Costs of goods sold		615,000
Gross Profit		205,000
Operating expenses for year		145,000
		60,000
Interest		27,000
Dividends		31,000
Retained Profit		2,000
Profit and Loss Balance 1/1/2006		45,000
Profit and Loss Balance 31/12/2006		47,000

Projected ratios and figures for year ended 31/12/2007

Earnings per Ordinary Share	8c
Dividend per Ordinary Share	6.1 c
Interest Cover	4 times
Quick Ratio	1.1 to 1
Price Earnings Ratio	14 to 1
Return on Capital Employed	8.5%
Gearing	58%

Balance Sheet as at 31/12/2006

		€
Fixed Assets		680,000
Investments (market value 31/12/2006 €210,000)		188,000
		868,000
Current Assets	187,000	
Current Liabilities		
Trade Creditors	(102,000)	
Proposed Dividends	(31,000)	54,000
		922,000
Financed by		
9% Debentures (2014 secured)		300,000
Capital and Reserves		
Ordinary Shares @ €1 each	325,000	
6% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	47,000	622,000
		922,000

Market value of one Ordinary Share €1.20

You are required to calculate the following for 2006

(a) (i) The Cash Purchases if the period of credit received from Trade Creditors is 2.4 months.
(ii) The Interest Cover.
(iii) The Dividend Yield.
(iv) How long it would take one Ordinary share to recover its value at present pay out rate.
(v) The projected market value of one Ordinary share in 2007. (45)

(b) Indicate if the Ordinary shareholders would be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios and other information to support your answer. (35)

(c) Advise the bank manager as to whether a loan of €150,000, on which an interest rate of 10% would be charged, should be granted to Mila Plc. for future expansion. Use relevant ratios and other information to support your answer. (20)

(100 marks)

Q5 - 2008

5. **Interpretation of Accounts**

The following figures have been extracted from the final accounts of Whelan Plc, a manufacturer of building materials. The company has an authorised capital of €800,000 made up of 550,000 ordinary shares at €1 each and 250,000 8% preference shares at €1 each. Whelan Plc, has already issued 400,000 ordinary shares and all of the 8% preference shares.

Trading and Profit and Loss account for year ended 31/12/2007

	€
Sales	930,000
Costs of goods sold	(630,000)
Operating expenses for year	(200,000)
Interest for year	(16,000)
Net Profit for year	84,000
Dividends paid	(45,000)
Profit and Loss Balance 1/1/2007	65,000
Profit and Loss Balance 31/12/2007	104,000

Ratios and information for year ended 31/12/2006

Earnings per Ordinary Share	1 8c
Dividend per Ordinary Share	5c
Interest cover	8 times
Quick Ratio	1.1:1
Market Value of one Ordinary Share	€1.35
Return on Capital Employed	9%
Gearing	40%
Dividend cover	3 times
Dividend yield	6%

Balance Sheet as at 31/12/2007

		€
Intangible Assets		130,000
Tangible Assets		600,000
Investments (market value €160,000)		170,000
		900,000
Current Assets (inc. Closing Stock €64,000)	180,000	
Trade Creditors	(166,000)	14,000
		914,000
10% Debentures (2011/2012)		160,000
Issued Capital		
Ordinary Shares @ €1 each	400,000	
8% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	104,000	754,000
		914,000

Market Value of one Ordinary Share €1.30

You are required to calculate the following for 2007:

(a) (i) The Dividend Yield.
(ii) The opening stock if the rate of stock turnover is 10 (based on average stock).
(iii) The earnings per ordinary share in 2007.
(iv) How long would it take one ordinary share to recoup (recover) its 2007 market price based on present dividend payout rate?
(v) The Price/Earnings ratio. (45)

(b) Indicate whether the ordinary shareholders should 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) A rising liquidity ratio is a sign of prudent management. Briefly discuss. (15)