

Note: Higher level questions are marked with an asterisk*

***3. Monk Ltd (Online)**

Chris Monk is planning to form a company, Monk Ltd, and needs to raise a total of £1,000,000. He is considering various ways of raising this sum:

Option 1 Issue 70,000 £10 ordinary shares at nominal value, £10 per share, and issue a £300,000 6% debenture, repayable in five years' time.

Option 2 Issue 40,000 £10 ordinary shares at par, 400,000 and £600,000 8% debentures.

(The lender has made it clear that a higher rate of return would be demanded if £500,000 or more is borrowed.)

Any debentures issued would be secured on the company's property.

REQUIRED:

- a) For both options, calculate the debenture interest that Monk Ltd would be liable to pay.
- b) Monk Ltd expects to make a profit before interest and dividends of £55,000 in its first year of trading and £130,000 in its second year. Calculate the profits that would be available to ordinary shareholders in years 1 and 2 under both options.
- c) Calculate the profit available per ordinary share in years 1 and 2 for both options.
- d) Use your findings to parts (b) and (c) to advise Chris on factors he should consider before deciding how to raise the long-term finance needed.

4. Shiver Ltd

Shiver Ltd has been trading for three years supplying and installing fridges and freezers in shops and supermarkets. Bill is the founder of the business and holds 60% of the ordinary shares. The company has reached a stage where Bill can see that, with extra funding, it could expand geographically to cover the whole of Southern England and Northern France. It has been suggested to Bill that he could either take out a long-term loan from the bank or seek venture capital to fund the expansion.

REQUIRED:

- a) Explain the advantages and disadvantages to Bill of raising venture capital finance.
- b) What would be the advantages and disadvantages to Bill of raising a long-term bank loan?
- c) The bank has made it clear that they would require security for a loan. What would this mean for Shiver Ltd?
- d) Suggest one other means by which the company might raise the funding it needs.

***5. Asif**

Asif runs a successful advertising agency from offices in Berlin. The business did not need much capital to get started but Asif is now keen to diversify the business from producing just newspaper and magazine adverts into creating television and radio adverts. To fund this, the business will need to raise a significant amount of capital, €900,000, and Asif has been advised that the best way to start this process is to convert the business into a limited company.

REQUIRED:

- a) Explain what is meant by limited liability.
- b) Describe two advantages to Asif of forming a limited company.
- c) If Asif issues 400,000 ordinary shares of €1 each and raises the remainder by means of a long-term loan carrying interest at 6%, what will the annual interest obligation of the company be?
- d) Forecast statements of profit or loss prepared for the company show that the once the business has expanded, expected profits will be:
- Year 1: Profit before interest €30,000
- Year 2: Profit before interest €42,000
- Year 3: Profit before interest €65,000
- Year 4: Profit before interest €88,000
- What would be the profits available to each ordinary shareholder in each of the years 1 to 4? (Ignore taxation.)
- e) Comment on your findings in part (d).

***6. Toybin plc**

Toybin plc paid the following dividends and interest during the year ended 31 December 2022 and 2023:

	Year ended 31 December	
	2023	2022
Ordinary dividend paid	£378,000	£232,000
Preference dividend paid	£63,000	£63,000
Debenture interest paid	£300,000	£300,000

The company had 4 million ordinary shares and 1.4 million preference shares in issue at 31 December 2022, and made an ordinary share issue in January 2023.

£6 million of debentures were in issue throughout both years.

REQUIRED:

- a) Explain two differences between ordinary shares and preference shares.
- b) Explain two differences between preference shares and debentures.
- c) What was the ordinary dividend per share paid during the year ended 31 December 2022?
- d) What was the preference dividend per share paid during the year ended 31 December 2022?
- e) If the ordinary dividend increased by 0.5 pence per share in 2023, how many new ordinary shares were issued in January 2023?
- f) What rate of interest do the debentures attract?