

Note: Higher level questions are marked with an asterisk*

3. John Jones

John Jones is considering purchasing shares in one of two companies and has extracted the information shown below from the statement of financial position for each company as at 31 December 2023:

	Atom Plc	Ball Plc
	£'000	£'000
£1 Ordinary shares	500	800
—		
<i>Reserves</i>		
Share premium	300	200
Retained earnings	<u>400</u>	<u>400</u>
	1,200	1,400
<i>Loan Capital</i>		
10% Debentures (2025)		<u>200</u>
12% Debentures (2028)	<u>400</u>	
	<u>1,600</u>	<u>1,600</u>

REQUIRED:

- a) Calculate the gearing proportion for Atom Plc and Ball Plc.
- b) Explain to John Jones the significance of gearing to an ordinary shareholder in each of the above companies.

- c) Assuming for each company a profit before interest of £400,000, calculate the profit available per ordinary share for both companies. No dividend is paid to ordinary shareholders. Ignore taxation.

4. Upton Ltd

Upton Ltd's financial statements show that the company made a profit after tax for the year of £145,000 and brought forward retained profits of £280,000. The company has an issued share capital of 500,000 ordinary shares of 50 pence each. Upton Ltd paid total ordinary dividends of £30,000. Upton Ltd has loans of £25,000, which remained unchanged throughout the year. Assume that the company has no reserves other than retained profits and does not have a share premium account.

REQUIRED:

- a) Explain what you understand by the term 'ordinary shares'.
- b) What was Upton Ltd's retained profit for the year?
- c) How many pence per share were paid to the ordinary shareholders as a dividend?
- d) What is the earnings per share of Upton Ltd?
- e) What is Upton Ltd's current gearing ratio?
- f) If Upton Ltd takes out a further loan for £30,000, what effect will this have on the gearing ratio?

5. Eyre Plc

Eyre Plc has a gearing proportion of 40% at 30 September 2023.

REQUIRED:

Decide whether the following statements are true or false, and give reasons for your answer:

- a. An ordinary share issue will reduce the gearing proportion.
- b. Repayment of a long-term loan will reduce the gearing proportion.
- c. Repayment of a short-term loan will reduce the gearing proportion.

***6. Appleby plc**

Appleby plc is a computer software company that has been in operation for four years, during which time it has seen significant growth.

The following financial information is available for the year to December 2023:

	31 December 2023
Turnover	£15 m
Profit after tax	£9 m
Ordinary dividend paid	£1.2 m
Number of ordinary shares	3.6 million
Market price per share	£18.30

REQUIRED:

- a) Calculate the investment ratios for Appleby plc.
- b) The following ratios are forecast for Appleby for the year to 31 December 2023:
 - Earnings per share 200 pence
 - Price to earnings 12.2 times

- Dividend cover 5 times

What do the above forecast ratios tell you about the forecasts made for 2023?

7. Joisa plc

Joisa plc is a business that specializes in the manufacture of designer luggage. A luxury goods company Luxy Goods plc is considering buying Joisa plc so that they can expand their luxury goods business into luggage.

The financial information is available for the three years to June 2023 and is shown in Table 9.8.

Table 9.8

	30 Jun 2021	30 Jun 2022	30 Jun 2023
Profit after tax	£0.9m	£1.3m	£2.6m
Dividend paid	£0.5m	£0.7m	£0.9m
Number of ordinary shares in issue	6 million	6 million	6 million
Market price per share at the year-end	£1.1	£1.2	£1.85

REQUIRED:

- a) Calculate the following for the three-year period:

Earnings per share

Price to earnings ratio

Dividend yield

Dividend cover.

- b)** What would be your advice to Luxy Goods plc in relation to the potential purchase of Joisa plc?