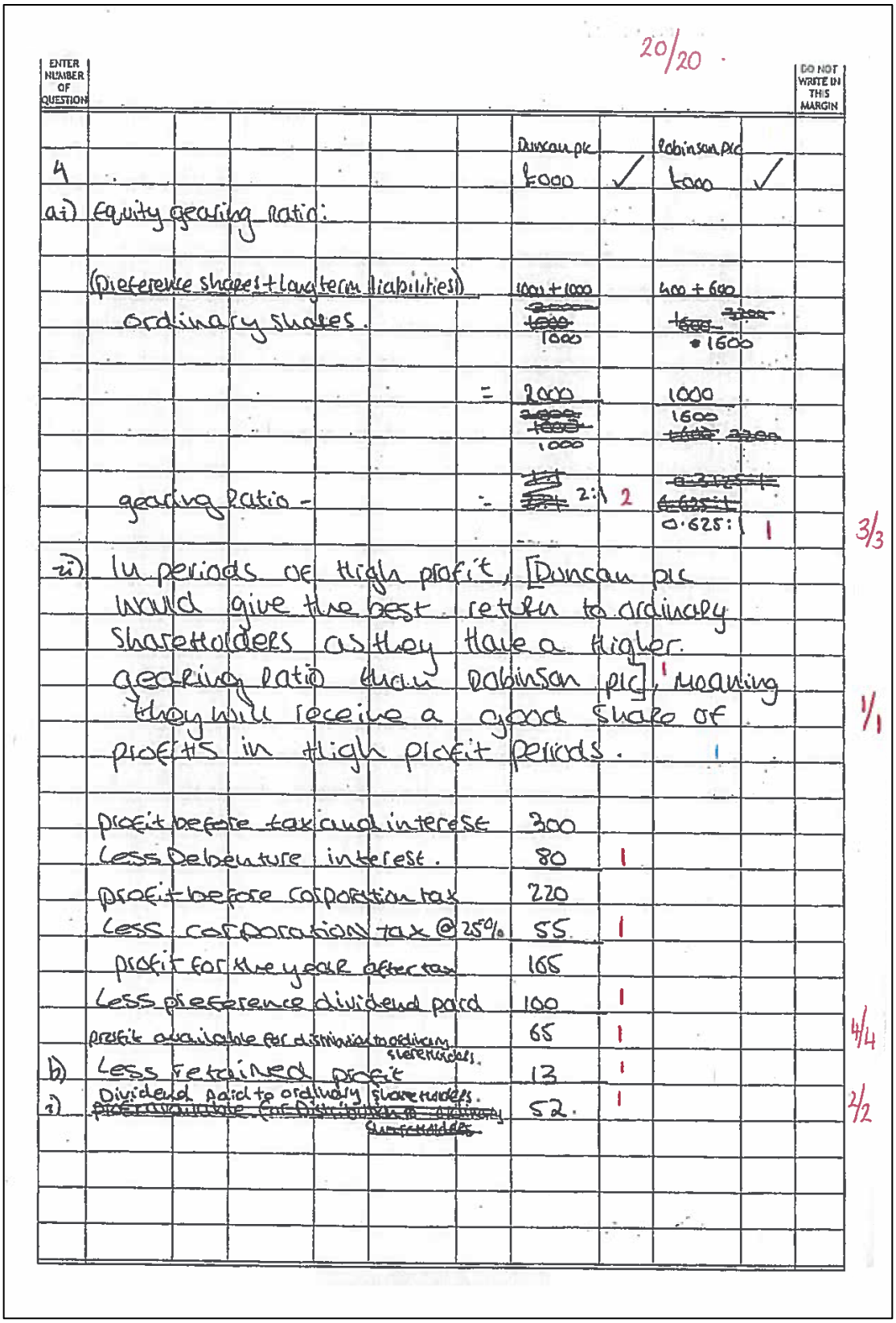
Candidate 1 evidence



20/20

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		Duncan plc £000	✓	Robinson plc £000	✓	
4						
a i)	Equity gearing ratio:					
	(Preference shares + Long term liabilities) / ordinary shares.	1000 + 1000 = 2000 / 1000		400 + 600 = 1000 / 1600		
	gearing ratio =	2:1	2	0.625:1	1	3/3
ii)	In periods of high profit, [Duncan plc would give the best return to ordinary shareholders as they have a higher gearing ratio than Robinson plc], meaning they will receive a good share of profits in high profit periods.					1/1
	profit before tax and interest	300				
	Less Debenture interest.	80	1			
	profit before corporation tax	220				
	Less corporation tax @ 25%	55	1			
	profit for the year after tax	165				
	Less preference dividend paid	100	1			
	profit available for distribution to ordinary shareholders.	65	1			4/4
b)	Less retained profit	13	1			
i)	Dividend paid to ordinary shareholders.	52.	1			2/2

ENTER NUMBER OF QUESTION

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Duncan plc

b)

Fixed ✓

iii) ordinary Dividend per share.

$$\frac{\text{ordinary dividend}}{\text{No. of ordinary shares.}} = \frac{52}{2000} \quad 2$$

~~= 0.025~~

= 0.026

= £0.03 1

3/3

iv) earnings per share:

$$\frac{\text{(profit for the year after tax - preference share dividend)}}{\text{No. of ordinary shares}}$$

$$= \frac{65}{2000}$$

1 = £0.0325

= £0.03 1

1/1

c) price/earning ratio = $\frac{\text{Market price per share}}{\text{earnings per share}}$.

price/earning ratio × earnings per share = Market price per share

2

Duncan plc

~~Fixed~~

= 50 × £0.03

Market price per share. = £1.50 2

2/2

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4 PART B

project 1

year			
	1	102000	102000
	2	128000	230000
	3	107000	
	4	235000	

2 years and $\left(\frac{70000}{107000} \times 365\right)$ days 1

2 years and 239 days. 1

project #2.

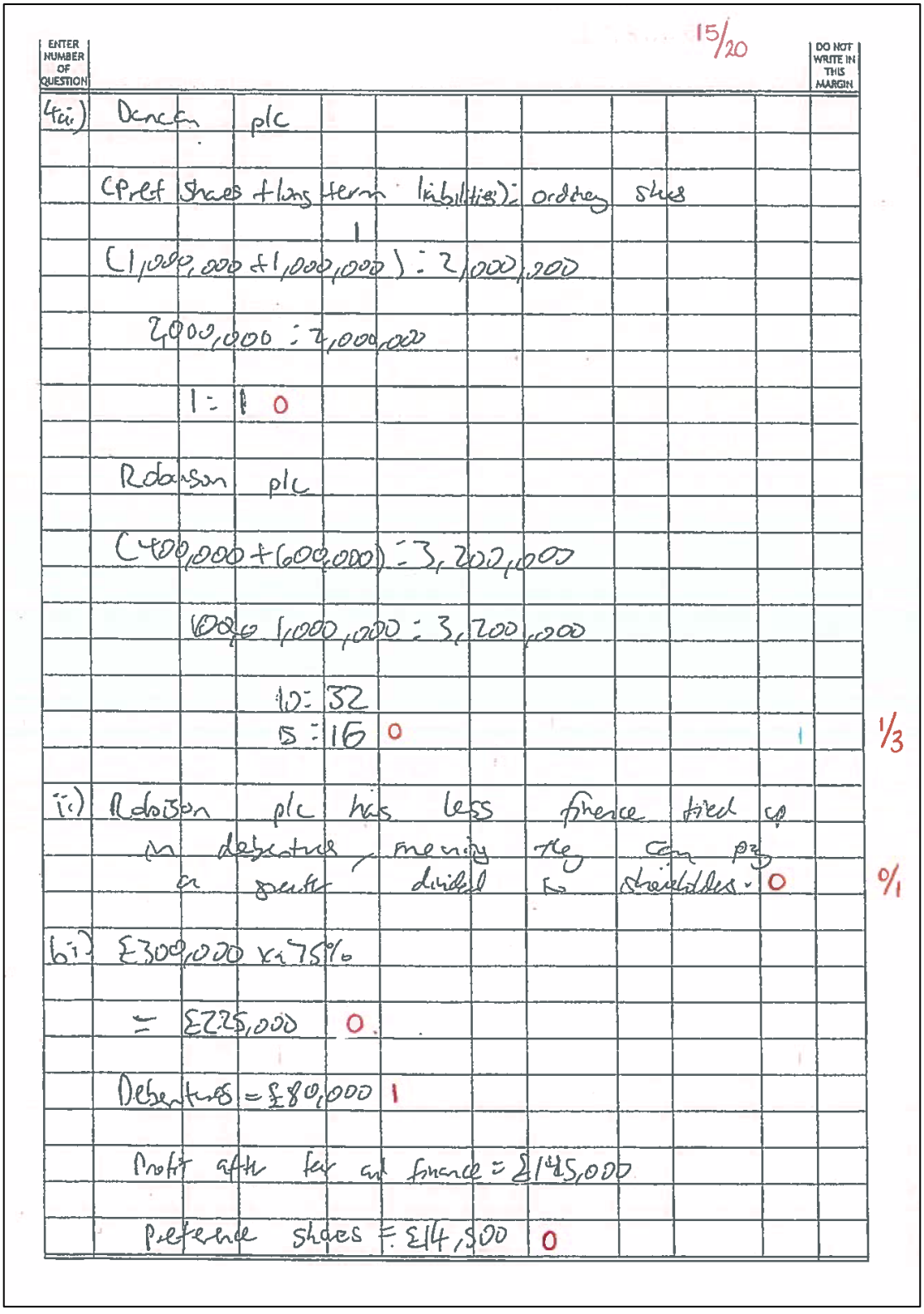
year			
	1	98000	98000
	2	134000	232
	3	167000	
	4	215000	

2 years and $\left(\frac{68000}{167000} \times 365\right)$ days 1

2 years and 149 days 1

4/4

Candidate 2 evidence



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4ii) Duncan plc

(Pref shares + long term liabilities) : ordinary shares

1

(1,000,000 + 1,000,000) : 2,000,000

2,000,000 : 2,000,000

1 : 1 0

Robinson plc

(400,000 + 600,000) : 3,200,000

1000 : 1,000,000 : 3,200,000

10 : 32

5 : 16 0 1 1/3

i) Robinson plc has less finance fixed cost in debentures, meaning they can pay a greater dividend to shareholders. 0 0/1

b i) £300,000 x 75%

= £225,000 0

Debentures = £80,000 1

Profit after tax and finance = £145,000

Preference shares = £14,500 0

ENTER NUMBER OF QUESTION

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Total profit available to ordinary shareholders

= £145,000 − £14,500

< £130,500 1c 2/4

ii) £130,500 × 80% 2 I 2/2

= £104,400 paid to ordinary shareholders

<

iii) ordinary dividend per share = 104,400 / 700,000 2* 3/3

= £0.051

iv) EPS = (PAT after tax − Pref share dividend) / No. of ordinary shares

~~EPS = £125,000 =~~

EPS = (£145,000 − £14,500) / 700,000

< 0.07 1c 1/1

~~v) Dividend Yield = Ordinary dividend per share × 100 / MPPS~~

ENTER NUMBER OF QUESTION

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c) Price/Earnings ratio = MPPS / EPS

SD = MPPS / 0.07

SD × 0.07 = MPPS

MPPS < £3.50 2c 2/4

Part B

Project 1

Year	Cash flow	Cumulative cash flow
1	£107,000	£107,000
2	£128,000	£235,000
3	£102,000	£337,000
4	£235,000	£572,000

payback = 2 years + ((initial investment − cash flow to date) ÷ cash flow of the year) × 365

2 years + ((300,000 − 235,000) ÷ 107,000) × 365

2 years 239 days ✓

Project 2

Year	Cash flow	Cumulative cash flow
1	£98,000	£98,000
2	£134,000	£232,000
3	£167,000	£399,000
4	£215,000	£615,000

2 years + ((300,000 − 232,000) ÷ 167,000) × 365

= 2 years 149 days ✓ 4/4