

Candidate 1 evidence

ENTER NUMBER OF QUESTION		Duncan plc	Robinson plc	DO NOT WRITE IN THIS MARGIN
4		£000	£000	
a)	Equity gearing ratio:			
	(Preference shares + Long term liabilities)	1000 + 1000	400 + 600	
	Ordinary shares	2000 1000	1600 1600	
		= 2000	1000	
		2000 1000 1000	1600 2300	
	gearing ratio -	2:1 2:1	0.625:1 0.625:1	
b)	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.			
	Profit before tax and interest	300		
	Less Debenture interest	80		
	Profit before corporation tax	220		
	Less corporation tax @ 25%	55		
	Profit for the year after tax	165		
	Less preference dividend paid	100		
	Profit available for distribution to ordinary shareholders	65		
	Less retained profit	13		
	Dividend paid to ordinary shareholders	52		
	Profit available for distribution to ordinary shareholders			

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	Dividend £000	
b)		
iii)	ordinary Dividend per share:	
	$\frac{\text{ordinary Dividend}}{\text{No. of ordinary shares}}$	
		52
		2000
		= 0.025
		= 0.026
		= £0.03
iv)	earnings per share:	
	$\frac{(\text{profit for the year after tax} - \text{preference share dividend})}{\text{No. of ordinary shares}}$	
		= 65
		2000
		= £0.0325
		= £0.03
c)	price/earning ratio = $\frac{\text{Market Price per share}}{\text{earnings per share}}$	
	price/earnings ratio \times earnings per share = Market price per share	
2.		Dividend £000
		= 50 \times 0.03
	Market price per share.	= £1.50

ENTER NUMBER OF QUESTION											DO NOT WRITE IN THIS MARGIN
4	PART B										
	<u>project 1</u>										
	year	1	102000	102000							
		2	128000	128 230000							
		3	107000								
		4	235000								
	<p>2 years and $\left(\frac{70000}{107000} \times 365\right)$ days</p> <p>2 years and 239 days.</p>										
	<u>project #2.</u>										
	year	1	98000	98000							
		2	134000	232							
		3	167000								
		4	215000								
	<p>2 years and $\left(\frac{68000}{167000} \times 365\right)$ days</p> <p>2 years and 149 days</p>										

Candidate 2 evidence

ENTER NUMBER OF QUESTION		DO NOT WRITE IN THIS MARGIN
(i)	Duncan plc	
	(Pref shares + long term liabilities) : ordinary shares	
	$(1,000,000 + 1,000,000) : 2,000,000$	
	$2,000,000 : 2,000,000$	
	1 : 1	
	Robson plc	
	$(400,000 + 600,000) : 3,200,000$	
	1000 $1,000,000 : 3,200,000$	
	10 : 32	
	5 : 16	
(ii)	Robson plc has less finance tied up in debentures, meaning they can pay a greater dividend to shareholders.	
(b)	$\pounds 300,000 \times 75\%$	
	$= \pounds 225,000$	
	Debentures = $\pounds 80,000$	
	Profit after tax and finance = $\pounds 145,000$	
	Preference shares = $\pounds 14,500$	

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	Total profit available for ordinary shareholders						
	= £145,000 - £14,500						
	= £130,500						
	ii) £130,500 × 80%						
	= £104,400 paid to ordinary shareholders						
	E						
	ii) ordinary dividend per share = $\frac{104,400}{700,000}$						
	= £0.05						
	iv) $EPS = \frac{(\text{PFT after tax} - \text{Net share dividend})}{\text{No. of ordinary shares}}$						
	EPS = $\frac{275,000}{700,000}$						
	EPS = $\frac{(\text{£145,000} - \text{£14,500})}{700,000}$						
	= 0.07						
	e) Dividend Yield = $\frac{\text{Ordinary dividend per share} \times 100}{\text{Net PPS}}$						

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c) Price/Earnings ratio = $\frac{MPS}{EPS}$

$SD \times 0.57 = \frac{MPS}{0.57}$

$SD \times 0.07 = MPS$

$MPS < 3.5SD$

Part B	Project 1	Year	Cash flow	Cumulative cash flow
		1	£102,000	£102,000
		2	£128,000	£230,000
		3	£107,000	£337,000
		4	£235,000	£572,000

payback = 2 years + $\frac{(\text{initial investment} - \text{cash flow to date})}{\text{cash flow of the year}}$ × 365

2 years + $\frac{(\text{£300,000} - \text{£230,000})}{\text{£107,000}} \times 365$

2 years 239 days

Project 2	Year	Cash flow	Cumulative cash flow
	1	£98,000	£98,000
	2	£234,000	£332,000
	3	£167,000	£509,000
	4	£215,000	£724,000

2 years + $\frac{(\text{£300,000} - \text{£232,000})}{\text{£167,000}} \times 365$

= 2 years 149 days