

- 2 (a) (i) Describe **three** different types of preference share.

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- (ii) State the **major** differences between ordinary shares, preference shares and debentures.

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On 1 October 2001 Manny Kyoor and his wife formed a limited company, Kyoor Ltd, to run a beautician's business, and each paid in \$37 500 as share capital. The bank loaned the company a further \$80 000 at 9% interest per annum.

At 30 September 2002 the business's final accounts were drawn up as follows:

Trading and Profit and Loss Account for the year ended 30 September 2002

Sales and fees		\$350 000
less Cost of Sales		
Stock bought 1 October 2001	\$31 500	
Purchases	<u>\$280 000</u>	
	\$311 500	
Stock at 30 September 2002	<u>\$66 500</u>	<u>\$245 000</u>
Gross Profit		\$105 000
less Expenses		
Rent and Rates	\$3 950	
Advertising	\$1 750	
Wages	\$29 000	
Heat and Light	\$5 250	
Interest due	\$7 200	
Depreciation	<u>\$12 000</u>	<u>\$59 150</u>
Net Profit		<u>\$45 850</u>

Balance Sheet as at 30 September 2002

<u>Fixed Assets</u>	<u>Cost</u>	<u>Deprec</u>	<u>NBV</u>
Premises	\$124 000		\$124 000
Fixtures and fittings	<u>\$48 000</u>	<u>\$12 000</u>	<u>\$36 000</u>
	<u>\$172 000</u>	<u>\$12 000</u>	<u>\$160 000</u>

Current assets

Stock	\$66 500	
Debtors	<u>\$21 500</u>	\$88 000

Amounts to be settled within one year

Creditors	\$21 000		
Interest due	\$7 200		
Bank	<u>\$18 950</u>	<u>\$47 150</u>	<u>\$40 850</u>
			<u>\$200 850</u>

Amounts to be settled after more than one year

Long term loan		<u>\$80 000</u>
		<u>\$120 850</u>

Share Capital and Reserves

75 000 ordinary shares of \$1	\$75 000
Retained profit	<u>\$45 850</u>
	<u>\$120 850</u>

Industry average ratios and other relevant data concerning businesses similar to Kyoor Ltd were as follows:

(i) Gross Profit percentage	30.00%
(ii) Net Profit percentage	18.07%
(iii) Current ratio	2.21:1
(iv) Liquid (Quick) ratio	1.02:1
(v) Stock Turnover ratio	8 times
(vi) Fixed Assets to Sales	50.18%
(vii) Return on Total Assets	25.37%
(viii) Return on Net Assets	34.93%
(ix) Debtors' Payment period	25 days
(x) Creditors' payment period	30 days

**(b)** Calculate each of the above ratios, to 2 decimal places, for Kyoor Ltd.

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(ii) .....

(iii) .....

(iv) .....

(v) .....

(vi) .....

(vii) .....

(viii) .....

(ix) .....

(x) .....

[10]

**(c)** Comment on the business's performance in the light of the data for the industry.

NOTE: It is not sufficient to say that a ratio is 'higher' or 'lower' than the industry average – it must be made clear whether you think it is **better** or **worse** than the industry average and you must give reasons for your comments.

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