Source B for Question 2

The equity of TN plc at 1 January 2024 was as follows:

	$
Ordinary share capital ($2 shares)	400 000
Share premium	23 000
Retained earnings	199 000
	622 000

The following information relating to the year ended 31 December 2024 is available.

1 On 15 March, a final dividend for 2023 of $0.35 per share was paid.

2 The ordinary share capital has remained constant for the previous three years. On 16 March, a bonus issue of ordinary shares was made on the basis of one share for every ten shares held. It is company policy to keep its reserves in the most flexible form.

3 TN plc issued a 6% debenture (2028) of $300 000 on 1 January 2022. The company issued another 6% debenture (2030) of $400 000 on 1 April 2024.

4 On 1 May, an interim dividend of $0.16 per share was paid on all shares in issue on that date.

5 Profit for the year amounted to $180 400.

2 Read Source B in the insert.

(a) Prepare the statement of changes in equity for the year ended 31 December 2024.
A total column **is** required.

.... [5]

(b) Calculate, to **two** decimal places, the return on capital employed for the year 2024.

.... [2]

(c) **(i)** Calculate, to **two** decimal places, the gearing ratio for **both** the years 2023 and 2024.

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.... [2]

(ii) Comment on the gearing ratio with reference to the calculations in **(c)(i)**.

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.... [4]

Additional information

The 2023 interim dividend was $0.05 per share. TN plc had a dividend cover of 1.8 times in 2023. In considering the proposed 2024 final dividend, the directors suggest that the dividend cover for 2024 should be increased to 2 times.

(d) **(i)** Calculate the proposed 2024 final dividend per share.

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.... [3]

(ii) Explain why the directors want to increase the dividend cover for 2024.

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.... [4]

Additional information

The market price of one share of TN plc at 31 December was as follows:

2024	2023
$4.65	$3.72

(e) Comment on the company's 2024 price/earnings (PE) ratio as compared to the company's PE ratio in 2023. Support your answer with calculations.

.... [5]

[Total: 25]

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>

Prepare the statement of changes in equity for the year ended 31 December 2024.

A total column <u>is</u> required.

	Ordinary shares $		Share premium $		Retained earnings $		Total $	
Balance at 1 January 2024	400 000		23 000		199 000		622 000	
Dividend – 2023 final **W1**					(70 000)	**(1)**	(70 000)	
Bonus	40 000	**(1)**	(23 000)	**}**	(17 000)	**}(1)OF**	0	
Dividend – 2024 interim **W2**					(35 200)	**(1)**	(35 200)	
Profit for the year					180 400		180 400	
Balance at 31 December 2024	440 000		0		257 200		697 200	**(1)OF**

W1 200 000 × $0.35 = $70 000
W2 220 000 × $0.16 = $35 200

</td><td>5</td></tr>
<tr><td>2(b)</td><td>

Calculate, to <u>two</u> decimal places, the return on capital employed for the year 2024.

($180 400 + $36 000) **(1)**/($697 200 + $700 000) × 100 = 15.49% **(1)OF**

Debenture interest $300 000 × 6% + $400 000 × 6% × 3/4 = $36 000

</td><td>2</td></tr>
<tr><td>2(c)(i)</td><td>

Calculate, to <u>two</u> decimal places, the gearing ratio for <u>both</u> the years 2023 and 2024.

Gearing ratio for 2023
$300 000/($622 000 + $300 000) × 100 = 32.54% **(1)**

Gearing ratio for 2024
$700 000/($697 200 + $700 000) × 100 =50.10% **(1)OF**

</td><td>2</td></tr>
</table>

Question	Answer	Marks
2(c)(ii)	**Comment on the gearing ratio with reference to the calculations in (c)(i).** In 2023, 32.54% of capital employed was provided in the form of a long-term loan rather than from shareholders / the company is regarded as low geared. **(1)** This ratio increased to 50.10%, in excess of 50% which is regarded as high geared. **(1)** A high geared company is perceived as more risky than a low geared company. **(1)** TN plc may have difficulty to borrow further funds/ to repay non-current liabilities /have heavy burden on interest payment **(1)** **Max 4** **Accept other valid responses.**	**4**
2(d)(i)	**Calculate the proposed 2024 final dividend per share.** Dividend for 2024 \$180 400/2 = \$90 200 **(1)** \$90 200/220 000 = \$0.41 **(1)OF** \$0.41 – \$0.16 = \$0.25 **(1)OF**	**3**
2(d)(ii)	**Explain why the directors want to increase the dividend cover for 2024.** To increase the dividend cover means that the directors wish to reinvest more profit into the business **(1)** that will lead to business expansion **(1)** and a further increase in profit in the future **(1)** The directors want to be sure that the company will be able to maintain the current level in the future if profit falls / there are less funds available for distribution. **(1)** **Max 4** **Accept other valid responses.**	**4**

Question	Answer	Marks
2(e)	**Comment on the company's 2024 price/earnings (PE) ratio as compared to the company's PE ratio in 2023. Support your answer with calculations.** 2023 Total dividend ($0.35 + $0.05) × 200 000 = $80 000 Earnings per share ($80 000 × 1.8)/200 000 = $0.72 PE ratio $3.72/$0.72 = 5.17 **(1)** 2024 Earnings per share $180 400/220 000 = $0.82 PE ratio $4.65/$0.82=5.67 **(1)** PE ratio of 2024 is better than 2023 **(1)** There is a higher market price in relation to earnings. **(1)** This suggests that the investors are confident in the future growth of the business. **(1)** TN plc should also compare with the industry's PE ratio. **(1)** **Max. 2 marks for calculations.** **Max. 3 marks for comments.** **Accept other valid responses.**	5