B1

Last year ABC Co made profits before tax of $2,628,000. Tax amounted to $788,000.

ABC Co's share capital was $2,000,000 (2,000,000 shares of $1) and $4,000,000 6% preference shares.

What was the earnings per share (EPS) for the year?

A. 31c

B. 80c

C. 92c

D. 119c **(2 marks)**

B1

Answer B 80c

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Profit before tax	2,628,000
Less tax	788,000
Profit after tax	1,840,000
Less preference dividend (6% × 4,000,000)	240,000
Earnings attributable to ordinary shareholders	1,600,000
Number of ordinary shares	2,000,000
EPS = 1,600,000 / 2,000,000 =	80c

Syllabus area A3(d)(i)

B2

The following statements relate to various functions within a business.

1 The financial management function makes decisions relating to finance

2 Management accounts incorporate non-monetary measures

Are the statements true or false?

A. Statement 1 is true and statement 2 is false

B. Both statements are true

C. Statement 1 is false and statement 2 is true

D. Both statements are false **(2 marks)**

B2

Answer B

Both statements are true.

Syllabus area A1(b)

B3

A company has recently declared a dividend of 12c per share. The share price is $3.72 cum div and earnings for the most recent year were 60c per share.

What is the P/E ratio?

A. 0.17

B. 6.00

C. 6.20

D. 6.60 **(2 marks)**

B3

Answer B

$$\text{P/E ratio} = \frac{\text{MV ex div}}{\text{EPS}} = \frac{\$3.60}{60c} = 6$$

MV ex div = 3.72 – 0.12 = 3.60. The ex div price is used because it reflects the underlying value of the share after the dividend has been paid.

Syllabus area A3(d)

B4

The following information relates to the ordinary shares of G Co.

Earnings per share	60c
Dividend cover	2.5
Published dividend yield	4.8%

What is the price of G Co's ordinary shares implied by the data above?

A. 24c

B. 115c

C. 313c

D. 500c **(2 marks)**

B4

Answer D 500 cents

Step 1 Calculate the dividend amount using dividend cover

Dividend cover = EPS / Dividend per share

∴ Dividend per share = EPS / Dividend cover

∴ Dividend per share = 60 / 2.5 = 24c

Step 2 Calculate the market price of share using dividend yield

Dividend yield = Dividend per share / Market price per share

∴ Market price per share = Dividend per share / Dividend yield

∴ Market price per share = 24 / 0.048 = 500c

Syllabus area A3(d)

B5

Which of the following is most appropriate as an objective of a not-for-profit organisation?

A. To achieve long term growth in earnings

B. To maximise shareholder wealth

C. To make efficient use of resources

D. To minimise input costs **(2 marks)**

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