Name

QUESTION 5: CASH FLOW AND INTERPRETATION **(75 marks; 45 minutes)**

5.1 Choose a term from the list below that answers the specific following questions. Write only the term next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK.

gearing; return on equity; solvency; liquidity; profitability

5.1.1 Is the business able to pay off all its debts?

5.1.2 Can the business pay off short-term debts in the next financial year?

5.1.3 Will shareholders be satisfied with the benefit that they receive for investing in the company?

5.1.4 To what extent is the company financed by loans or borrowed capital? (4)

5.2 **KULFI LTD**

Information for the financial year ended 28 February 2019 is provided.

Where financial indicators are required to support your answer, quote the financial indicator and actual figure/ratio/percentage and trends.

REQUIRED:

5.2.1 Prepare the Retained Income Note to the Balance Sheet. (12)

5.2.2 Calculate the following amounts for the Cash Flow Statement. Show workings.

- Income tax paid (4)
- Dividends paid (4)

5.2.3 Complete the following sections of the Cash Flow Statement:

- Cash effects of investing activities (9)
- Net change in cash and cash equivalents (4)

5.2.4 Calculate the following financial indicators on 28 February 2019:

- Acid-test ratio (4)
- Debt-equity ratio (4)
- % return on average shareholders' equity (ROSHE) (5)

5.2.5 The shareholders are satisfied with the improvement in the liquidity position. Quote THREE financial indicators (with figures) to support this statement. (6)

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5.2.6 The company increased the share capital by R840 000, and the loan by R550 000.

- Explain how this affected the gearing and risk of the company. Quote TWO financial indicators. (5)
- Explain what the directors have done with this cash inflow. State TWO points. (4)

5.2.7 The directors decided to decrease the dividend pay-out percentage.

- Provide calculations to show the change in the pay-out rate. (4)
- Give ONE reason why many shareholders were satisfied with the change in policy. Quote figures. (2)

5.2.8 On 1 March 2018 Martha owned 475 000 shares in the company. She did not purchase any shares from the shares issued on 1 May 2018.

- Explain how the repurchase of the shares benefited Martha's shareholding. Quote figures. (4)

INFORMATION:

A. Share capital:

- There were 900 000 ordinary shares in issue on 1 March 2018.
- An additional 100 000 ordinary shares were issued on 1 May 2018.
- On 1 October 2018 the company repurchased 60 000 shares at R9,00 per share. The average share price at the time was R8,04.

B. Dividends:

- Interim dividends of 25 cents per share were paid on 15 September 2018.
- Final dividends were declared on 28 February 2019.

C. Extract from Income Statement for the year ended 28 February 2019:

	R
Depreciation	123 600
Interest expense	143 000
Income tax (at 30% of the net profit)	293 100

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D. Extract from Balance Sheet on 28 February 2019:

	2019	2018
	R	R
Fixed assets (carrying value)*	8 775 720	8 430 720
Fixed deposit: Flay Bank	150 000	100 000
Current assets	**996 480**	**684 300**
Inventories	448 000	281 000
Trade and other receivables **(Note 1)**	288 300	378 300
Cash and cash equivalents	260 180	25 000
Shareholders' equity	**?**	**7 341 500**
Ordinary share capital	7 557 600	7 200 000
Retained income	?	141 500
Loan: Home Bank	**1 400 000**	**850 000**
Current liabilities	**553 600**	**923 520**
Trade and other payables **(Note 2)**	553 600	781 000
Bank overdraft	0	142 520

* Old equipment was sold at carrying value, R111 800, for cash.

Note 1: Trade and other receivables:	2019	2018
Debtors' control	288 300	367 000
SARS: Income tax	0	11 300

Note 2: Trade and other payables:	2019	2018
Creditors' control	325 000	421 000
Shareholders for dividends	206 800	360 000
SARS: Income tax	21 800	0

E. The following financial indicators were calculated on 28 February:

	2019	2018
Current ratio	1,8 : 1	0,7 : 1
Acid-test ratio	?	0,4 : 1
Debtors' collection period	28 days	39 days
Creditors' payment period	60 days	60 days
Debt-equity ratio	?	0,1 : 1
Return on shareholders' equity (ROSHE)	?	10.2%
Return on total capital employed (ROTCE)	12,9%	14,4%
Earnings per share (EPS)	71 cents	83 cents
Dividends per share (DPS)	47 cents	80 cents
Net asset value per share (NAV)	837 cents	816 cents
Market value per share	840 cents	807 cents
Interest rate on loans	13,5%	13,5%

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QUESTION 5

5.1

5.1.1	
5.1.2	
5.1.3	
5.1.4	

5.2 KULFI LTD

5.2.1 RETAINED INCOME NOTE:

Balance on 1 March 2018	
Net profit after tax	
Ordinary share dividends	
Balance on 28 February 2019	

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5.2.2 Calculate: Income tax paid

Workings	Answer

Calculate: Dividends paid

Workings	Answer

5.2.3

Cash effects of investing activities	

Net change in cash and cash equivalents	

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5.2.4 Calculate: Acid-test ratio

Workings	Answer

Calculate: Debt-equity ratio

Workings	Answer

Calculate: % return on average shareholders' equity (ROSHE)

Workings	Answer

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5.2.5 The shareholders are satisfied with the improvement in the liquidity position. Quote **THREE** financial indicators (with figures) to support this statement.

5.2.6 The company increased the share capital by R840 000, and the loan by R550 000.

Explain how this affected the gearing and risk of the company. Quote **TWO** financial indicators.

Explain what the directors have done with this cash inflow. State **TWO** points.

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5.2.7	Provide calculations to show the change in the pay-out rate.
	Give ONE reason why many shareholders were satisfied with the change in policy. Quote figures.

5.2.8	Explain how the repurchase of the shares benefited Martha's shareholding. Quote figures.

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