

Name _____

QUESTION 5: FIXED ASSETS, CASH FLOW AND INTERPRETATION

(70 marks; 40 minutes)

- 5.1 Choose a description in COLUMN B that matches the user of financial statements in COLUMN A. Write only the letters (A to D) next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
5.1.1	Trade unions	A	want to be assured that their investment in the company is used wisely
5.1.2	SARS	B	use the financial statements to make decisions to manage the company
5.1.3	Shareholders	C	monitor whether their members are paid fairly
5.1.4	Directors	D	need to be assured that income tax is levied on the net profit correctly

(4 x 1)

(4)

5.2 MALOTRA LTD

You are provided with information relating to Malotra Ltd for the financial year ended 28 February 2018. The company is registered with an authorised share capital of 1 200 000 ordinary shares.

REQUIRED:

5.2.1 Refer to Information A.

Calculate the missing amounts denoted by (a) to (d) on the Fixed Asset Note.

(16)

5.2.2 Calculate the net profit after income tax on 28 February 2018.

(3)

5.2.3 Calculate the following for the Cash Flow Statement:

- Dividends paid

(4)

- Funds used to repurchase shares

(5)

- Proceeds from shares issued

(5)

5.2.4 Complete the section for Cash and Cash Equivalents in the Cash Flow Statement.

(4)

5.2.5 Calculate the following financial indicators on 28 February 2018:

- Acid-test ratio

(4)

- Debt-equity ratio

(3)

- Return on average shareholders' equity

(5)

5.2.6 The directors decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators (with figures). (6)

5.2.7 Comment on the price paid for the shares repurchased on 1 January 2018. Quote TWO financial indicators (with figures). (5)

5.2.8 Thandi Nene owns 416 000 shares in the company. When the directors decided to issue a further 200 000 shares during October 2017, she decided not to buy more shares and rather spend her funds on an overseas holiday.

Explain why you feel Thandi has made the wrong decision. Quote relevant figures or calculations to support your opinion. (6)

INFORMATION:

A. Incomplete Fixed Asset Note:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
Carrying value (1 Mar. 2017)	4 256 350	535 250	
Cost		(b)	1 500 000
Accumulated depreciation		(419 750)	(595 000)
Movements:			
Additions	(a)	(c)	0
Disposals		0	(e)
Depreciation		(195 000)	(d)
Carrying value (28 Feb. 2018)	6 192 350		626 000
Cost		1 415 000	
Accumulated depreciation			

- An extension to the storeroom and improvements to the buildings were completed during the financial year.
- A new vehicle was purchased on 1 June 2017.
- Old equipment was scrapped at carrying value on 28 February 2018.
- Depreciation policy: Vehicles: 15% on cost
Equipment: 20% on carrying value

B. Income tax:

- Income tax at 30% of the net income amounts to R286 200.

C. Dividends:

- Interim dividends were paid on 31 August 2017.
- Final dividends were declared on 28 February 2018.
- Only shareholders in the share register qualified for dividends.
- Dividends paid and declared for the current financial year: R332 000

QUESTION 5

5.1

5.1.1	
5.1.2	
5.1.3	
5.1.4	

5.2 MALOTRA LTD

5.2.1

	Workings	Answer
(a)		
(b)		
(c)		
(d)		
(e)		

5.2.2 Calculate the net profit after income tax on 28 February 2018.

Workings	Answer

5.2.3 Calculate the dividends paid.

Workings	Answer

Calculate the funds used to repurchase shares.

Workings	Answer

Calculate the proceeds from shares issued.

Workings	Answer

5.2.4	Net change in cash and cash equivalents	
	Cash and cash equivalents (opening balance)	
	Cash and cash equivalents (closing balance)	

5.2.5	Calculate the acid-test ratio.	
	Workings	Answer
	Calculate the debt-equity ratio.	
	Workings	Answer
	Calculate the return on average shareholders' equity.	
	Workings	Answer

5.2.6 The directors decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators (with figures).

5.2.7 Comment on the price paid for the shares repurchased on 1 January 2018. Quote TWO financial indicators (with figures).

5.2.8 Thandi Nene owns 416 000 shares in the company. When the directors decided to issue a further 200 000 shares during October 2017, she decided not to buy more shares and rather spend her funds on an overseas holiday.

Explain why you feel Thandi has made the wrong decision. Quote relevant figures or calculations to support your opinion.

Calculations:

Explanation: