Name

QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION

(70 marks; 40 minutes)

4.1 CONCEPTS

Choose the correct term to complete each of the following statements. Write only the term next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

working capital; inflow of cash; interest on loan; outflow of cash; depreciation

4.1.1 An increase in trading stock will indicate a/an … (1)

4.1.2 The difference between current assets and current liabilities is referred to as … (1)

4.1.3 … is regarded as a non-cash item. (1)

4.1.4 A decrease in debtors will indicate a/an … (1)

4.2 BRAZILIA LTD

The following information relates to Brazilia Ltd for the financial year ended 31 October 2016.

REQUIRED:

4.2.1 State ONE purpose of a Cash Flow Statement. (2)

4.2.2 Complete the Cash Flow Statement for the year ended 31 October 2016. Some of the figures have already been entered for you. (27)

4.2.3 Calculate the following financial indicators for the financial year ended 31 October 2016. Round off your calculation to ONE decimal point or to the nearest cent, where applicable.

- Acid-test ratio (4)
- % return on shareholder's equity (ROSHE) (4)
- Earnings per share (EPS) (3)

INFORMATION:

A. Extract from the Income Statement for the year ended 31 October 2016:

Depreciation	154 000
Interest on loan	336 000
Net profit before tax	1 938 600
Income tax	560 000
Net profit after tax	1 378 600

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B. Figures identified from the Balance Sheet on 31 October:

	Average	2016	2015
	R	R	R
Fixed assets at carrying value		10 041 000	8 878 000
Fixed deposit: Granite Bank		760 000	1 000 000
Non-current liability: Loan from Metal Bank	2 625 000	2 450 000	2 800 000
Current assets		1 186 600	1 191 200
Current liabilities		1 236 000	1 359 200
Ordinary shareholders' equity	7 605 800	8 301 600	6 910 000
Retained income		1 021 600	960 000
Ordinary share capital		7 280 000	5 950 000

C. Figures extracted from the notes to the Balance Sheet on 31 October:

	2016	2015
	R	R
Shareholders for dividends	656 000	595 000
SARS (Income tax)	Debit 28 500	Credit 41 750
Debtors' control	527 000	816 200
Creditors' control	580 000	374 000
Bank	Debit 174 500	Credit 348 450
Petty cash	5 000	3 000
Trading stock	451 600	372 000

D. Share capital

- The authorised share capital of the company is 5 000 000 shares.
- 700 000 shares were in issue on 31 October 2015, the last day of the previous financial year.
- 120 000 new shares were issued on 1 November 2015, the beginning of the current financial year.
- 20 000 shares were repurchased on 31 October 2016 at R15,50 each. The average issue price of the shares on the date of repurchase was R9,10 per share. These shares qualify for final dividends.

E. Dividends

The directors paid an interim dividend of R533 000 on 28 May 2016.

F. Fixed assets

- Extensions to the building were undertaken at a cost of R1 360 000 during the financial year. No other fixed assets were purchased.
- Equipment was sold at carrying value during the financial year.

LIVEWORKSHEETS

4.3 **GRAYSON LTD AND JONI LTD**

The financial indicators and other information given refer to TWO different companies, Grayson Ltd and Joni Ltd. Both companies are listed on the stock exchange.

NOTE: When answering the questions below, quote the relevant financial indicators with actual figures (percentages/ratios and/or amounts).

REQUIRED:

4.3.1 Which company is NOT handling its working capital effectively? Explain what the main problem is in respect of their working capital, by quoting TWO financial indicators. (7)

4.3.2 The companies have made different decisions regarding the use of loans. Comment on the degree of risk and financial gearing. Give ONE financial indicator in EACH case for EACH company. (7)

4.3.3 The dividend policy used by each company has been maintained for the past four years. Explain the policy used by EACH company. Provide figures to support your explanation in EACH case. (6)

4.3.4 Should EACH company be satisfied with its share price on the JSE? Explain. Provide figures. (6)

INFORMATION:

The following financial indicators/other information is from the records of Grayson Ltd and Joni Ltd on 31 March 2016, the financial year-end:

	GRAYSON LTD	JONI LTD
Current ratio	1,65 : 1	4,40 : 1
Acid-test ratio	1,20 : 1	0,85 : 1
Stock-holding period	38 days	184 days
Return on average shareholders' equity (ROSHE)	16,1%	8,9%
Debt-equity ratio	0,85 : 1	0,1 : 1
Return on average total capital employed (ROTCE)	27%	4%
Earnings per share (EPS)	540 cents	730 cents
Dividends per share (DPS)	528 cents	292 cents
Net asset value per share (NAV)	1 200 cents	425 cents
Market price per share on the JSE	875 cents	763 cents
Interest rate on loans	14%	14%
Interest rate on fixed deposits	8%	8%
Percentage dividend pay-out	98%	40%

LIVEWORKSHEETS

QUESTION 4

4.1 CONCEPTS

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4.2 BRAZILIA LTD

4.2.1 State **ONE** purpose of a Cash Flow Statement.

LIVEWORKSHEETS

4.2.2 CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2016

CASH FLOW FROM OPERATING ACTIVITIES	
Cash generated from operations	2 844 200
Interest paid	(336 000)
CASH FLOW FROM INVESTING ACTIVITES	
Fixed assets purchased	(1 360 000)
Change in fixed deposit	240 000
CASH FLOW FROM FINANCING ACTIVITIES	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS AT BEGINNING	
CASH AND CASH EQUIVALENTS AT END	179 500

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4.2.3	Calculate the acid-test ratio.
	Calculate the % return on average shareholders' equity (ROSHE).
	Calculate the earnings per share (EPS).

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4.3 GRAYSON LTD AND JONI LTD

4.3.1 Which company is NOT handling its working capital effectively?

Explain what the main problem is in respect of their working capital, by quoting TWO financial indicators.

4.3.2 The companies have made different decisions regarding the use of loans. Comment on the degree of risk and financial gearing. Give ONE financial indicator in EACH case for EACH company.

	DEGREE OF RISK	FINANCIAL GEARING
Grayson Ltd	Financial indicator:	Financial indicator:
Joni Ltd	Financial indicator:	Financial indicator:
Comment		

LIVEWORKSHEETS

4.3.3 The dividend policy used by each company has been maintained for the past four years. Explain the policy used by **EACH** company. Provide figures to support your explanation in **EACH** case.

	EXPLANATION (with figures)
Grayson Ltd	
Joni Ltd	

4.3.4 Should **EACH** company be satisfied with its share price on the JSE? Explain. Provide figures.

	EXPLANATION (with figures)
Grayson Ltd	
Joni Ltd	

LIVEWORKSHEETS