(ii) Equipment:

- Equipment was sold for R9 600 cash on 31 August 2018. Only the following entries in respect of this sale were processed:

Cost price	28 000
Accumulated depreciation at the date of disposal	21 500
Depreciation for the current financial year	1 750

- Depreciation on the remaining equipment is calculated at R92 500 after taking all of the above into account.

J. Interest income is the missing figure in the Income Statement.

K. Income tax is calculated at 28% of the net profit. The net profit before tax was R691 000.

L. Shares and dividends:

- The company has an authorised share capital of 8 000 000 shares.
- The company had 1 200 000 shares in issue on 1 April 2018.
- 150 000 shares were repurchased on 30 November 2018. EFT payments totalling R825 000 were made for these shares.
- 850 000 additional shares were issued on 30 September 2018.

80

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)

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

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: Hom e 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%

75

QUESTION 6: BUDGETING (30 marks; 20 minutes)

You are provided with information relating to Cimpiwe Clothing Shop.

REQUIRED:

6.1 Refer to Information A.

Identify TWO items in the Cash Budget that will not appear in a Projected Income Statement. (2)

6.2 Calculate the missing amounts indicated by (i) to (iii) in the Cash Budget for June and July 2019. (7)

6.3 Calculate the total purchases for April 2019. (2)

6.4 Complete the Debtors' Collection Schedule for July 2019. (8)

6.5 Refer to Information F.

6.5.1 Comment on the following:

- Effect of the advertising on sales (3)
- Payment to creditors (2)

6.5.2 Sales strategy:

- Identify TWO strategies (except advertising) that the business used to achieve sales targets for May 2019. Quote figures. (4)
- Explain whether these were good strategies, or not. Provide ONE point with figures. (2)

INFORMATION:

A. Extract from the Cash Budget

	JUNE 2019	JULY 2019
CASH RECEIPTS		
Cash sales	186 000	285 000
Cash from debtors	533 430	?
Rent income	(i)	9 180
Interest on fixed deposit	1 800	2 200
CASH PAYMENTS		
Salaries and wages	73 400	73 400
Fixed deposit: Protea Bank	0	(ii)
Cash purchases of trading stock	?	(iii)
Payment to creditors	192 000	?
Insurance	3 250	3 250
Drawings	21 600	21 600
Sundry expenses	96 360	98 700

B. Cash sales are 25% of total sales.

Collections from debtors:

- 30% in the month of sales less 5% discount
- 65% in the following month
- Provision is made for 5% bad debts.

C. Budgeted purchases of trading stock:

April	?
May	R484 000
June	R496 000
July	R760 000

- 40% of trading stock is bought on credit.
- Creditors are paid two months after the transaction month.

D. Rent increased by 8% in July 2019.

E. The business has a fixed deposit of R360 000. An additional amount is budgeted to be invested on 1 July 2019. Interest (not capitalised) at 6% p.a. is receivable at the end of each month.

F. Cimpiwe is concerned about the following items for May 2019:

	BUDGETED (R)	ACTUAL (R)	VARIANCE (R)
Cash sales	172 000	140 000	±32 000
Credit sales	516 000	552 000	+ 36 000
Collection from debtors	475 000	380 000	±95 000
Advertising	36 000	64 800	+ 28 800
Payments to creditors	180 000	105 000	±75 000
Delivery expenses	0	19 000	±19 000
Packing materials	3 000	2 500	±500

30

TOTAL: 300

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