

SESSION 7: CASH FLOW STATEMENTS & RATIOS

KEY CONCEPTS:

In this session we will look at:

- Cash flows and Interpretation

X-AMPLE QUESTION:

QUESTION 1:

CASH FLOWS AND INTERPRETATION

The financial year of Barcelona Ltd ends annually on 28 February. The company has an authorised share capital of R1 200 000. The share price on the JSE is currently trading at R2, 05 each. (28 February 2003)

INSTRUCTIONS

- 1.1 Complete the note 'Reconciliation of net profit with cash generated from operations' as at 28 February 2003. (14)
- 1.2. Calculate the amount **paid to shareholders** for dividends -2003 (7)
- 1.3. Complete the **Cash Flow Statement** for the year ended 28 February 2003. (22)
- 1.4. Calculate the **net asset value per share** for 2003. (5)
- 1.5. David owns 5 000 Barcelona Ltd shares. Messi offers him R9 800 for his shares.
David is not sure whether to accept. Should David accept Messi's offer? Explain. (6)
- 1.6. Calculate the **return on capital employed** for 2003. (6)
- 1.7. The directors are considering **expanding** business operations. They are not sure whether to obtain a further loan of R300 000 (at an interest rate of 14%) or to use own funds. As their accountant, you advise the company not to use borrowed funds. **Explain. Quote 2 financial indicators to support your opinion.** (8)
- 1.8. Explain the difference between liquidity and solvency. (4)
- 1.9. As the accountant you are requested to write a report to the directors of Barcelona Ltd, on the **liquidity position** of the company. Your report must be based on the **calculation and findings of 2 liquidity ratios** for the current and previous year. Also include in your report **possible factors** responsible for the change. (16)

INFORMATION

EXTRACT FROM THE INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2003

CASH SALES	590 700
CREDIT SALES	299 900
INTEREST EXPENSE	78 000
DEPRECIATION ON EQUIPMENT	65 340
DEPRECIATION ON VEHICLES	67 650
NET INCOME BEFORE TAX	131 826
NET INCOME AFTER TAX	68 550

LIST OF BALANCES ON 28 FEBRUARY

	notes	2003	2002
Tangible assets	1	826 980	776 820
Inventories (stock only)		180 820	89 760
Consumable stock on hand		3 000	-
Trade and other receivables	2	66 950	74 100
Cash and cash equivalent		32 610	15 180
Ordinary share capital		505 500	445 500
Retained income		111 060	93 060
Mortgage loan		450 000	330 000
Trade and other payables	3	43 800	87 300

Note: The par value of shares is R1,50.

EXTRACT FROM THE NOTES TO THE FINANCIAL STATEMENTS

1. Tangible assets:

	Vehicles	Equipment
Carrying value 2002	378 180	398 640
Carrying value 2003	270 930	556 050

Note: Motor vehicles were sold at book value but no vehicles were bought during the year. Equipment was bought but none was sold during the year.

2. Trade and other receivables

Included in the 2003 figure is an amount of R15 540 for SARS – Income tax.

3. Trade and other payables

	2003	2002
Trade creditors	39 180	17 984
SARS (Income tax)	-	31 350
Shareholders for dividends	4 620	37 966