

REVISING CASH FLOW AND RATIO ANALYSIS

21 AUGUST 2014



Lesson Description

In this lesson we:

- Focus on Cash Flow Statements and calculations
- Look at ratio calculations and comments.



Test Yourself

The information below was extracted from the records of CC LTD for the year ended 28 February.

	2014	2013
Shareholders for dividends	10 000	40 000
Interim Dividends	50 000	20 000
Final Dividends	10 000	40 000

Question 1

Calculate the amount that will be reflected in the Appropriation account for Ordinary Share Dividends for 2014.

- a) R60 000
- b) R10 000
- c) R50 000
- d) None of the above

Question 2

Calculate the amount that will be reflected in the Cash Flow Statement for Dividends paid for 2014:

- a) R40 000
- b) R90 000
- c) R60 000
- d) None of the above

Question 3

Dividends paid in the Cash Flow Statement is reflected under:

- a) Cash Flow from Operating activities
- b) Cash Flow from investing activities
- c) Cash Flow from Financing activities
- d) None of the above

Question 4

Depreciation is not included in the cash flow statements because of the following reason.

- a) It is an error and should be included
- b) It is an expense but not a payment of cash
- c) It is a non-cash item
- d) (b) and (c)

Question 5

The following is not a liquidity ratio:

- a) Acid-test ratio
- b) Debtors collection period
- c) Rate of stock turnover
- d) Debt/equity



Improve your Skills

Question 1

ALWANDE LIMITED

You are provided with information relating to Alwande Limited, a public company. The financial year end on 28 February 2014.

REQUIRED:

- 1.1 Complete the note for the reconciliation of net profit before tax and cash generated from operations for the year ended on 28 February 2014. (8)
- 1.2 Complete the Cash Flow Statement for the year ended 28 February 2014. Some of the figures have been entered in the answer book. (Calculations must be shown in brackets.) (20)
- 1.3 Calculate the following for 2014.
 - 1.3.1 Debt/equity ratio (3)
 - 1.3.2 % return on average shareholders' equity (after tax) (5)
 - 1.3.3 % return on total capital employed (6)

INFORMATION RELATING TO ALWANDE LTD

	2014	2013
Sales	1 862 000	1 120 000
Interest expenses	19 500	28 000
Depreciation	56 000	41 000
Net profit after tax	522 900	310 000
Ordinary share capital	2 400 000	1 600 000
Retained income	200 000	168 000
Non-current liabilities	130 000	940 000
Fixed/tangible assets	1 928 600	2 937 600
Creditors	145 000	85 500
Debtors	141 000	113 000
Inventory	220 000	185 000
SARS-income tax	DR 47 000	CR 18 000
Shareholders for dividends	320 000	175 000
Cash and cash equivalent	1 033 000	-
Fixed deposit	715 900	753 000
Bank overdraft	-	87 500

notes for...

- Certain assets were sold at book value for R1 100 000 cash.
- Income tax is calculated at 30% of the profit.
- 320 000 shares have been issued, at the beginning of the year, at R5.
- On the 1 April 2013, the company's board of directors authorised the buy-back of 20 000 of the company's shares from existing shareholders. A repurchased price was set at R8,50 each. An electronic transfer of funds was made to shareholders for shares repurchased.
- 100 000 shares were issued at R9 on 1 September 2013.

1.4 Your friend, Mr Mathebula, wants to buy shares in a company which sells stationery. He asks you for advice and presents you with the following financial indicators of two companies he is considering. Both companies have the same number of shares.

	Mkhabela LTD	Nyembe LTD
Market price per share on the JSE	710 cents	920 cents
Net asset value per share	535 cents	1120 cents
Earnings per share	350 cents	285 cents
Dividends per share	230 cents	160 cents
% return on shareholder's equity	25,4%	14,5%
% return on total capital employed	33,4%	16,8%
% on interest rate on loans	17%	17%
Debt / Equity ratio	0,2 :1	3,1 :1
Current ratio	5,1 :1	2 :1
Acid-test ratio	0,8 : 1	1 : 1
Stock turnover rate	6 times	10 times
Average debtors collection period	30 days	35 days
Average creditors payment period	41 days	45 days

Note: 189 000 ordinary shares for both companies were issued at the end of the accounting period, Mkhabela LTD issued same shares at 450 cents while Nyembe LTD issued same shares at 1 200 cents.

REQUIRED:

Answer the following questions. In each case, you must support your answer by:

- Quoting the relevant financial indicators (actual figures, ratios or percentages).
- Indicating the trends from one year to the next.
- Provide an additional relevant comment.

1.4.1 Comment on the price at which the new shares were issued for both companies. Will the directors and the shareholders be satisfied with this?

Explain, quoting relevant figures from the question in each company. (5 x 2) (10)

1.4.2 Consider the use of loans by the two companies:

- Which company is making more use of loans? Quote a financial indicator for each company to indicate this.
- Explain whether or not it was a good idea for that company to make use of loans. Quote ONE financial indicator to indicate this. (6)

1.4.3 Mr Mathebula is of the opinion that the directors of Nyembe are generally happy with the handling of its working capital more effectively and are in a better liquidity situation than Mkhabela LTD. Explain and quote THREE financial indicators to support his opinion. (9)

notes for...

1.2

Cash flow statement for the year ended 28 February 2014

Cash flow from operating activities	
Dividends paid	(300 000)
Cash flow from investing activities	
Proceeds on sale of non-current assets	1 100 000
Cash flow from financing activities	

1.3

1.3.1 Debt / Equity Ratio

1.3.2 % Return on Average Shareholders Equity

NET PROFIT AFTER TAX
 $\frac{1}{2}$ (ORDINARY SHARE CAPITAL + RETAINED INCOME)

1.3.3 % Return on Total Capital Employed

NET PROFIT BEFORE TAX + INTEREST EXPENSE
 $\frac{1}{2}$ (ORDINARY SHAREHOLDERS EQUITY + NON-CURRENT LIABILITIES)

1.4.1

MKHABELA LTD

NYEMBE LTD

1.4.2

MKHABELA LTD

NYEMBE LTD

1.4.3

Empty box for notes.