CASH FLOW STATEMENT

Decisions are made by management will AFFECT THE CASHFLOW OR BANK
Decisions can be made on the following items of the Cash flow statement:

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019		
		R
Cash flows from operating activities		
Cash generated from operations		
Interest paid		COMPULSORY
Taxation paid		COMPULSORY
Dividends paid		DECISION
Cash flows from investing activities		
Purchase of non-current assets	Normally have greater effect on cash	DECISION
Proceeds from sale of non-current assets		DECISION
Investments matured/repaid		
Cash flows from financing activities		
Proceeds from issue of shares	Normally have greater effect on cash	DECISION
Proceeds from long-term borrowings	Normally have greater effect on cash	DECISION
Repayment of long-term loans	Normally have greater effect on cash	DECISION
Net change in cash and cash equivalents (balancing amount)		RESULTS OF DECISION
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year		

NOTE: Major decisions are also identified by SIGNIFICANT or LARGE amounts.

CONSEQUENCES /RESULTS OF DECISIONS:

- **Reduce cash**
- **Increase cash**

Decisions are not only applicable to Cash Flow ,management should also decide on stock ,manufactured products etc.

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CASH FLOW AND FINANCIAL INDICATORS

2018 FEB/MARCH

INFORMATION:

A. Information from the financial statements on 28 February:

	2017 R	2016 R
Net profit after income tax	295 750	113 400
Fixed assets (carrying value)	4 934 450	3 993 390
Shareholders' equity	**4 375 250**	**3 135 000**
Ordinary share capital	4 117 500	3 000 000
Retained income	257 750	135 000
Non-current liabilities	750 000	1 300 000
Inventories (only Trading Stock)	288 000	363 000
Debtors	318 000	254 000
Creditors	287 000	367 000
Cash and cash equivalents	2 500	245 000
Bank overdraft	27 500	-
SARS: Income tax	5 200 (Cr)	3 390 (Cr)
Shareholders for dividends	98 000	50 000

Check Note 3 and additional information

B. Fixed Asset Note:

Fixed assets comprise only Buildings and Equipment.

	BUILDINGS	EQUIPMENT
Carrying value (01/03/2016)	2 866 990	1 126 400
Cost (01/03/2016)		2 200 000
Accumulated depreciation (01/03/2016)		(1 073 600)
Movements:		
Additions	**(a)**	300 000
Carrying value (28/02/2017)		1 058 520

- Additional equipment was purchased on 1 June 2016.

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- Extensions to the building were completed on 31 August 2016.

C. Share capital and dividends

- The company is registered with an authorised share capital of 1 000 000 ordinary shares.
- On 1 March 2016 there were 500 000 shares in issue. A further 200 000 shares were issued on this date.
- An interim dividend of R70 000 was paid on 31 August 2016.
- On 28 February 2017, 25 000 ordinary shares were repurchased from the estate of a deceased shareholder at R6, 30 per share. The average issue price was R6, 10 at this point.
- A final dividend was declared on 28 February 2017.

D.

Financial indicators on 28 February:	**2017**	**2016**
Earnings per share	**?**	23 cents
Dividend per share	24 cents	20 cents
Return on average shareholders' equity	7, 9%	3,6%
Interest on fixed deposits	9%	8%

QUESTIONS AND ANSWERS

5.6 The directors revised the dividend pay-out policy for the current financial year.

5.6.1 Calculate the percentage of earnings distributed as dividends for each year to show this change. (4)

Earnings per share
295 750 ÷ (500 000 + 200 000 -25 000) x100 = 43,8cents
675 000

2016: 20/23 x 100 = 87%
2017: 24/43,8 x 100 = 55%

Earning
Dividend

DECISION –DIRECTORS REDUCED DIVIDENDS PAID TO 55% OF THE EARNINGS

5.6.2 Give ONE reason why the directors took this decision. (2)

- They decided to retain funds for future developments in the business.
- They wanted to minimise their cash flow problems / They foresaw that the company bank balance is going into an overdraft.

5.6.3 Explain why the shareholders may not be satisfied with the return they earned. Quote a financial indicator or figure(s). (3)

- ROSHE is 7, 9% is less than what she would receive on an alternative investment. (Fixed deposits offer 8% in 2016 and 9% in 2017).

5.7 The Cash Flow Statement reflects some important decisions taken by the directors. Apart from the dividends, **identify THREE good decisions**. Explain the effect of each decision on the company. Quote figures. (9)

GOOD DECISION	EFFECT ON COMPANY
• Reducing or paying a large portion of the loan by R550 000 **OR:** • Decreased loan from R1 300 000 to R750 000	• Reduced financial risk / Improved the debt equity ratio from 0,4 :1 to 0,2 : 1 see 5.4.1 **OR** • The ROTCE improved from 6,4% to 11,4%; closer to the interest rate of 12% (still negatively geared).
• Issue new shares; R1 270 000*	• Lightened the cash flow burden • Used to reduce the loan
• Purchase of fixed assets; 308 930 (1 008 940 + 300 000) see 5.1(a)	• Leads to capital growth (future productivity) • More assets in the company

MANUFACTURING ACCOUNTS (2017 OCT/NOV)

INFORMATION

	SHOES 2017	SHOES 2016
Break-even point	3 842	4 317
Units produced and sold	7 750	6 500
Net profit	R2 379 750	R1 183 000
Selling price per unit	R1 640	R1 260
Selling price of competitors	R1 100	R1 250
Total fixed costs (factory overhead and administration)	R2 340 000	R2 340 000
Total fixed cost per unit	R302	R360
Total variable costs per unit	R1 031	R718
Direct material costs per unit	R456	R330
Direct labour costs per unit	R381	R360
Selling and distribution costs per unit	R194	R28
Unit cost of production	R1 100	R1 004

- Calculate the % increase in the selling price of shoes.

(3)

1 640–1 260 380 ✓ x 100 1 260 ✓ 1 = 30,2%

- Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution **costs were affected by this decision.** Provide figures. (4)

● Direct material cost (DMC) increased✓ from R330 to R456 (by R126/by 38%/38, 2%) ✓ ● Selling and distribution cost (S&DC) increased✓ from R28 to R194 (by R166/by 593%/592,8%)✓

- Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points. (4)

● Sales increased (by 1 250 units) / customers still supported the business (despite increase in price) ● Net profit increased (by R1 196 750) / price did not negatively affect sales) ● BEP decreased (due to increased contribution per unit) by 475 units / the business now exceeds BEP by bigger margin (3 908 units).

FINANCIAL INDICATORS

2016 FEB/MARCH

A. **Share Capital**

- Authorised share capital is 3 000 000 ordinary shares.
- In 2012, 1 200 000 ordinary shares had been issued at R3, 50 per share.
- On 1 November 2015, 300 000 ordinary shares were issued at R4, 50 each.
- On 28 February 2016, 40 000 shares were repurchased at R0, 60 more than the average price per share.

B.Extract from the Balance Sheet on 28 February 2016:		
	2016	**2015**
Fixed assets (carrying value)	**?**	**?**

Fixed deposit: FS Bank	**1 450 000**	**1 200 000**
Current assets	**1 944 280**	**1 010 000**
Inventory	975 700	345 000
Debtors and other receivables	419 000	629 600
SARS (Income tax)	0	17 400
Cash and cash equivalents	549 580	18 000
Shareholders' equity	**5 950 800**	**4 345 000**
Share capital	5 402 000	4 200 000
Retained income	548 800	145 000
Mortgage loan: TKO Bank	**1 950 000**	**400 000**

C.FINANCIAL INDICATORS	**2016**	**2015**
Return on total capital employed	24,2%	21,2%
Debt-equity ratio	0,33 :1	0,09 : 1
Interest rate on loans	10,5%	10,5%
Net asset value per share	408 cents	362 cents
Market value per share	505 cents	480 cents

QUESTIONS AND ANSWERS

5.1.1 The directors decided to increase the loan during the current financial year. Explain why this was a good decision. Quote and explain TWO financial indicators (with figures) in your answer. (8)

Check Financial indicators provided above

ROTCE

- This has increased from 21,2% to 24,2%
- Positively geared as ROTCE is higher than interest rate (10, 5%)

DEBT-EQUITY RATIO
● This has increased from 0, 09: 1 to 0, 33: 1. ● Low financial risk/not making much use of loans. Relies more on own funds

5.1.1 The directors were pleased with the price that the company paid to buy back the 40 000 shares. Give a suitable reason why the directors felt that way. Quote relevant financial indicators (with figures) to support your answer.

- Paid R4, 30 per share to buy back shares. This is lower than the market value per share (2015 – 480 cents; 2016 – 505 cents).**Check Information C**

(not a big difference to the NAV – 362 cents and 408 cents) **Check Information C**

Average issue price was R3, 70.

- Purchased at a lower price than the issue price of the additional shares. (R4,50)

Average price calculation: 1200 000 x 3.5 = 4 200 000
300 000 x 4.5 = 1 350 000
1 500 000 5 550 000

5 550 000 ÷1 500 000 = 3.70

2018 ASC JUNE
BUDGETS
6.4 .Tony compared the budgeted figures to the actual figures for April 2018.

	BUDGETED	**ACTUAL**
Sales	R480 000	R576 000
Advertising	R8 000	R11 000
Wages of cleaners	R9 000	R12 500

Cleaning materials	R1 200	R2 700
Payment to creditors	R224 000	R0

INFORMATION K
The business pays wages to two cleaners, one of whom has been on sick leave in April and a substitute had to be employed. Tony is concerned that too much money is wasted on cleaning. He thinks that he should contract Gentex Cleaning Services to take over the cleaning process entirely. They will charge R8 000 per month.

Question

Refer to the figures above and to Information F. State TWO points in favour of appointing Gentex Cleaning Services. Also explain ONE point that Tony should consider before making this decision.

Points in favour

- Outsourced cleaning could cost less than budgeted/actual for wages and cleaning materials
- Easier to budget (fixed contract amount)
- Expertise / professionalism / specialisation of the cleaning company
- No interruption or extra costs due to workers on sick leave etc.
- No storage space needed for cleaning materials
- Leads to reduction in administration costs
- VAT input can be claimed from SARS
- The cleaners can be rotated between different clients if necessary

Point to consider before making this decision

- Whether it will make the current employees redundant / retrench or reassign the existing cleaners (consider the ethics of this)
- Reliability of the new cleaning company
- Honesty of the workers of the outsourced business
- Negative image of outsourcing to the company
- Whether outsourcing conflicts with their social responsibility programmes
- Instructions to cleaners have to be given through the cleaning firm's managers
- Terms of the contract regarding fee increases