

TOPIC: COMPANIES - INTERPRETATION OF FINANCIAL STATEMENTS**Learner Note:**

- Always answer in point form
- Make sure you learn your theory on companies
- Open ended questions do not have one correct answer

SECTION A: TYPICAL EXAM QUESTIONS**QUESTION 1 40 minutes 75 marks****COMPANY INTERPRETATION**

You are provided with information relating to Fatti's Supermarkets Ltd, a public company listed on the JSE Securities Exchange.

REQUIRED:

- 1.1 Complete the Cash Flow Statement for the year ended 30 June 2008 (18)
- 1.2 Calculate the following financial indicators for 2008:
- Operating profit on sales
 - Return on average shareholders' equity
 - Net asset value per share
 - Earnings per share
 - Stock turnover rate (23)
- 1.3 The number of directors and employees remained the same for the past two years. You are told that there is problem in this business – the employees feel that they are now working much harder and they are therefore dissatisfied.
- In your opinion, have the employees been treated fairly or not? Explain briefly. Provide two points, supporting your answer by quoting specific figures from the financial statements or the financial indicators.
- What advice would you offer to the directors in solving this problem? (9)
- 1.4 In your opinion, has the company controlled its working capital well, and is it in a good liquidity situation? Explain briefly, quoting specific figures from the financial statements, or the financial indicators. (7)
- 1.5 As a shareholder in this company, you are satisfied with the return, earnings, dividends and share price of the company. Write a brief letter to the Managing Director / Chief Executive Officer (CEO), explaining why you are happy with the performance of the directors and highlight areas where there can be improvement. Quote specific figures from the financial statements or the financial indicators to support your opinions. (18)

INFORMATION:

Information extracted from the published financial statements for the past two years.
Note that figures are expressed in thousands of Rands.

	2008	2007
	R'000	R'000
Non-current assets	1 238 080	1 222 000
Fixed assets	898 080	922 000
Financial assets (Investments in shares)	340 000	300 000
Current assets	178 000	168 000
Inventories (all Trading stock)	59 000	125 000
Trade & other receivables	21 000	32 000
Cash & cash equivalents	98 000	11 000
Ordinary shareholders' equity	1 224 780	990 000
Ordinary share capital (R10 par value)	950 000	800 000
Share premium	140 000	80 000
Retained income	134 780	110 000
Non-current liability (Long-term loan, 12% p.a.)	100 000	300 000
Current liabilities	91 300	100 000
SARS (Income tax)	4 300	3 000
Shareholders for dividends	38 000	28 000
Expenses payable	2 000	6 000
Trade creditors & other payables	47 000	63 000

Information extracted from the Income Statement for the past two years:

	2008	2007
	R'000	R'000
Sales	942 400	624 000
Cost of sales	(640 000)	(375 000)
Gross profit	302 400	249 000
Operating expenses	(160 000)	(130 000)
Salaries & wages (1 120 employees)	70 000	50 000
Directors fees (4 directors)	16 500	15 000
Depreciation	15 000	13 000
Other operating expenses	58 500	52 000
Operating profit	142 400	119 000
Interest on mortgage loan	(12 000)	(36 000)
Net profit before tax	130 400	83 000
Income tax	(39 120)	(29 050)
Net profit after tax	91 280	53 950

Additional information:

- New shares were issued on the first day of the financial year.
- Fixed assets were sold at book value during the year for R160 000 000.
- The market value of the shares on the JSE on 30 June 2008 is R11,90. This represents a 15% improvement from the previous year.
- The tax rate for companies declined from 35% in 2007 to 30% in 2008.

The following financial indicators were calculated for the past two years:

	2008	2007
% Increase in sales	51%	2%
% Mark-up on cost	47%	60%
% Operating expenses on sales	17%	21,7%
% Operating profit on sales	?	15,8%
% Net profit on sales	9,7%	9,0%
% Return on shareholders' equity (after tax)	?	5,4%
% Return on total capital employed (before tax)	9,4%	8,5%
Net asset value per share	?	1238 cents
Dividends per share	70 cents	60 cents
Earnings per share	?	67,4 cents
Debt/Equity ratio	0,1 : 1	0,3 : 1
Current ratio	1,9 : 1	1,7 : 1
Acid-test ratio	1,3 : 1	0,4 : 1
Stock turnover rate	?	3 times

[75]

QUESTION 2 **75 Marks** **50 minutes**

COMPANIES – CASH FLOW AND RATIOS

Mackie Ltd has an authorised share capital of 900 000 ordinary shares with a par value of R3,00 per share.

As at 28 February 2007, the end of the **previous financial year**, they had issued 500 000 ordinary shares.

REQUIRED:

- 2.1 Complete the fixed/tangible asset note in the Balance Sheet of Mackie Ltd as well as the Asset Disposal account by filling in all the missing figures
- Note that during the year a new vehicle was bought on 31 May 2007 and old equipment was sold at book value on credit. (20)
- 2.2 Complete the following parts of the Cash Flow Statement for the year ended 29 February 2008:
- Note to show the reconciliation between profit before taxation and cash generated from operations. (15)
 - Cash from financing activities (10)
 - Amount of cash paid to SARS (4)
- 2.3 Calculate the price at which the new shares were sold. (4)
- 2.4 Calculate the following to one decimal place on 29 February 2008:
- Net asset value per share (4)
 - Return on average ordinary shareholders equity (4)
 - Return on average total capital employed (4)
- 2.5 Some of the shareholders have issued a vote of no confidence in the directors regarding the performance and financial decisions made in the last year. Do you think they are justified in their decision? Quote at least 3 figures / financial indicators to support your answer. (10)

INFORMATION:

1. Depreciation on the assets is as follows:
 - Vehicle at 15% p.a. on diminishing balance method.
 - Equipment R36 375 for the year ended 29 February 2008.
2. The following figures were extracted from the Income Statement:

Interest on loan from director (interest capitalised) R12 000
Income Tax R54 000
Net profit after tax R126 000
3. The new shares were issued on 1 March 2007.
4. On 28 February 2007, Mackie Ltd had a loan from a director of R 75 000 at an interest rate of 14% p.a. The balance of this loan on 29 February 2008 is R 132 000. The loan agreement stipulates that interest is to be capitalized and that repayments of R 1 200 per month are to be made to the director. During the year the loan was also increased.
5. Financial indicators for the year ended 28 February 2007:
 - Net asset value R2,64
 - Return on ordinary shareholders equity 9%
 - Return on total capital employed 12%
6. Current market price of the share on the JSE on 29 February 2008 is R3,20

7. Figures extracted from the Balance Sheet of Mackie Ltd as at the end of February:

	2008	2007
Ordinary share capital	R1 800 000	R1 500 000
Ordinary share premium	R97 500	R30 000
Retained Income	R 39 600	R 52 200
Loan from director	R132 000	R75 000
Creditors Control	R 35 000	R 28 000
SARS (Income Tax)	R 5 250 (dr)	R 4 000 (cr)
Shareholders for Dividends	R 88 200	R 40 000
Debtors Control	R 63 000	R 66 000
Inventories	R 116 150	R 86 200

[75]

SECTION B: ADDITIONAL CONTENT NOTES

INTRODUCTION

For our curriculum in Grade 12 we are going to use ratios to analyse the information available in the Income statement and the Balance sheet.

The raw information available in these financial statements is of limited value. For example, if we had to say that Company X made a profit after tax of R1 000 000, while Company Y made an after tax profit of R6 000 000. Which one would you say has performed better? Your response initially may be Company Y. But, if I told you that Company X had a turnover of R4 000 000, whilst Company Y had a turnover of R120 000 000, now what would you think?

From this we can see that to make a judgment or decision based purely on raw information could be misleading. Therefore there are a number of ratios that can be used to allow us to interpret financial information more accurately. The ratios one would use would depend on the particular aspect of the business one wishes to analyse or answers to specific questions that one is looking for.

The ratios used can be classified under the following categories:

- Profitability - Indicates how profitable the business is and how well expenses are controlled.
- Return - What the owner/s are getting back in return for their investment.
- Liquidity - The ability of the business to pay its short- term debts.
- Solvency - Can the business settle all its liabilities?
- Operating efficiency - Indicates how well operating activities are carried out.
- Risk - Indicates degree of financial risk

The ratios can help us to:

- Check whether there is growth or stagnation in the business
- Check results with competitors performance
- Compare current results to previous years
- Compare results to general economic indicators in the country or globally
- Compare results to alternative investments
- Determine the degree of financial risk by investors / creditors

Some people interested in measuring the business results:

- Management
- Directors / Owners / Investors / Shareholders
- Banks
- SARS
- Trade Unions
- Competitors

The following ratios are of importance in Grade 12

No.	Ratio	Category
1.	Gross profit on turnover	Profitability
2.	Gross profit on cost of sales	Profitability
3.	Net income before tax on turnover	Profitability
4.	Total expenses on turnover	Profitability
5.	Solvency ratio	Solvency
6.	Current ratio	Liquidity
7.	Acid test ratio	Liquidity
8.	Rate of stock turnover	Liquidity
9.	Number of months of stock on hand	Liquidity
10	Debtors collection period	Liquidity
11.	Creditors payment period	Liquidity
12.	Gearing ratio / Debt equity ratio	Risk
13.	Return shareholders' equity	Return
14.	Return on capital employed	Return
15.	Earnings per share	Return
16.	Dividends per share	Return
17.	Net asset value per share	Return

The table below describes the ratios, gives their formula and provides guidance on the possible comments to make.

Remember: You have to learn the formula to be able to use the ratio.

Ratio Analysis

Description	Formula	Guidance to comment
1. % Gross profit on turnover	$\frac{\text{Gross profit}}{\text{Sales}} \times 100$	<ul style="list-style-type: none"> • Illustrates mark-up on selling price. • Mark-up achieved may be compared to policy of business.
2. % Gross profit on cost of sales	$\frac{\text{Gross profit}}{\text{Cost of Sales}} \times 100$	<ul style="list-style-type: none"> • Illustrates mark-up on cost price. • Mark-up achieved may be compared to policy of business. • Possible reasons for difference: <ul style="list-style-type: none"> ➢ Seasonal sales ➢ Cash discounts ➢ Incorrect pricing ➢ Theft
3. % Net income on turnover	$\frac{\text{Net profit}}{\text{Turnover}} \times 100$	<ul style="list-style-type: none"> • Portion of net income for every Rand of sales. • Compare to previous results
4. % Total expenses on turnover	$\frac{\text{Total expenses}}{\text{Turnover}} \times 100$	<ul style="list-style-type: none"> • Indicates absorption rate of expenses on turnover. • A lower rate is more favourable.
5. Solvency ratio	Total assets : Total liabilities	<ul style="list-style-type: none"> • The ratio is used to answer the question whether the business is solvent / an indication of its solvency situation. • If assets are more than liabilities the business is solvent. The higher the ratio the better the solvency. • If solvency is close to 1 : 1 there is possible risk of insolvency in the future.

6. Current ratio	Current assets : Current liabilities	<ul style="list-style-type: none"> • Determines liquidity of business. • Compare to previous results • However if the ratio is very high it can also indicate excessive investment in current assets. Funds could be used for a better return on other investments.
7. Acid-test ratio	Current assets - inventory : Current liabilities	<ul style="list-style-type: none"> • Determines liquidity of business. • Compare to previous results • If current ratio is favourable and acid-test ratio is unfavourable, it shows possibility of too much investment in stock.
8. Rate of stock turnover	<u>Cost of sales</u> Average stock <ul style="list-style-type: none"> • Average stock = stock at beginning + stock at end divide by 2. • Note the answer must be in times per year. 	<ul style="list-style-type: none"> • Compare to previous results. • Compare to industry. • Quicker rate is more favourable.
9. Number of months of stock on hand	<u>Average stock</u> x 12 Cost of sales	<ul style="list-style-type: none"> • Gives an indication of how long we can expect the stock on hand to last. • This can help with determining ordering times. • We can also comment on the amount of stock carried by the business.
10. Debtors average collection period	<u>Average debtors</u> x 365 or 12 Credit sales <ul style="list-style-type: none"> • If x 365 answer in days • If x 12 answer in months 	<ul style="list-style-type: none"> • Compare to term allowed • If longer, then unfavourable. • How to improve: <ul style="list-style-type: none"> ➤ Send statements more regularly ➤ Charge interest on overdue accounts ➤ Control credit

11. Creditors average payment period	<p><u>Average creditors</u> x 365 or 12 Credit purchases</p> <ul style="list-style-type: none"> • If x 365 answer in days • If x 12 answer in months 	<ul style="list-style-type: none"> • Compare to term allowed • If longer, then unfavourable. • Aim for shorter time: <ul style="list-style-type: none"> ➢ Good relation with suppliers ➢ Negotiate better terms and conditions ➢ Obtain regular supplies
12. Debt / Equity ratio	Non-current liabilities : Shareholders equity	<ul style="list-style-type: none"> • Measures degree of financial risk of the business • A lower ratio is more favourable, the business is less of a financial risk. • Easier to obtain loans • A high ratio indicates that funds have to be obtained by other means, besides borrowing.
13. Return on total capital employed	<p><u>Net profit before tax + interest on loans</u> x 100 Average capital employed</p> <p>Capital employed = Shareholders equity + non-current liabilities. Average therefore will be the above for two years, divided by two.</p>	<ul style="list-style-type: none"> • Compare to previous results. • Compare to other outside investments, such as return on a fixed deposit.
14. Return on shareholders' equity	<p><u>Net profit after tax</u> x 100 Average shareholders' equity</p> <ul style="list-style-type: none"> • Shareholders equity = Share capital + share premium + retained income. • Average therefore would be the above for two years, divide by two. 	<ul style="list-style-type: none"> • Compare to previous results. • Compare to other outside investments, such as return on a fixed deposit. • Compare to returns by other companies with a similar share price.

15. Earnings per share	$\frac{\text{Net profit after tax} \times 100}{\text{Number of shares issued}}$ <ul style="list-style-type: none"> Number of shares issued = Share capital divided by par value 	<ul style="list-style-type: none"> Compare to previous results. Compare to earnings by other companies with a similar share price. Comment in relation to general economic conditions Comment in relation to JSE performance in general
16. Dividends per share	$\frac{\text{Total dividends} \times 100}{\text{Number of shares issued}}$	<ul style="list-style-type: none"> Compare to previous results. Compare dividends to earnings per share. If a huge difference exists then it means that a large amount has been kept as retained income. Is there justification for that. Comment in relation to general economic conditions. Comment in relation to JSE performance in general
17. Net asset value per share	$\frac{\text{Shareholders equity} \times 100}{\text{Number of shares issued}}$	<ul style="list-style-type: none"> Used to determine current value of shares Can influence the decision whether to buy a particular share or not. If the net asset value is more than the par value, one is inclined to buy the share. The difference between dividend per share and earnings per share represents the amount retained by the company and thus increases the net asset value per share

Learner Note: From the above you can see the importance of understanding your concepts of companies. As you attempt the homework, you need to ensure that you are able to answer the questions in the allocated time frames. If you get stuck, you should refer either to the additional notes or your class teacher.

SECTION C: HOMEWORK

QUESTION 1**70 marks:****45 minutes***(DOE NOV 2008)***CASH FLOW AND INTERPRETATION OF A COMPANY**

You are provided with information relating to Glebo Limited for the year ended 30 June 2008. Glebo Limited is a public company listed on the JSE Securities Exchange. They are based in Pretoria and they sell office stationery.

The directors of Glebo Limited decided to open new branches in Bloemfontein and Witbank halfway through the year.

Note:

- Answer the questions below.
- Where you are asked to comment on financial indicators you must quote the name of the relevant indicator as well as the figure, which is provided or calculated in the question for that indicator.

REQUIRED:

1.1 Calculate the following financial indicators for 2008:

- | | |
|--|-----|
| 11.1 Debt/Equity ratio | (3) |
| 1.1.2 Acid-test ratio | (4) |
| 1.1.3 Stock turnover rate | (4) |
| 1.1.4 % return on average shareholders' equity (after tax) | (4) |
| 1.1.5 Net asset value per share | (4) |

1.2 Solvency and liquidity:

- | | |
|--|------|
| 1.2.1 Briefly explain the difference between <i>solvency</i> and <i>liquidity</i> . | (2) |
| 1.2.2 Comment on the solvency of this business. Quote a financial indicator from the question to support your opinion. | (3) |
| 1.2.3 Comment on the liquidity of this business. Quote the financial indicators and the changes (trends) from the previous year to support your opinion. | (10) |

1.3 Returns and share price:

1.3.1 Comment on the earnings, dividends and % return. Quote financial indicators and the changes (trends) from the previous year to support your opinion. (6)

1.3.2 You have been a shareholder since the company started many years ago. The price of the share on the JSE is now 350 cents which is a 6% increase over the past year. Would you be satisfied with the performance of the share price? Comment and compare this to a financial indicator from the question to support your opinion. (4)

1.4 Calculate the missing figures in the Cash Flow Statement. The missing figures are indicated (a) to (e). (12)

1.5 The Cash Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer. Also explain how these decisions would benefit the company and the shareholders. (8)

1.6 At the AGM, the directors announce that the company will:

- Conduct training of all employees in terms of morals and ethics
- Donate funds towards cleaning up the environment

Explain why this is necessary although this will cost the company a lot of money each year. State THREE points. (6)

INFORMATION:**GLEBO LIMITED****EXTRACT FROM INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**

	2008	2007
Sales (70% of sales were on credit)	9 000 000	7 000 000
Cost of sales	5 625 000	4 070 000
Operating profit	1 423 200	947 600
Income tax	426 000	270 000
Net profit after tax	904 000	630 000

GLEBO LIMITED
BALANCE SHEET AS AT 30 JUNE 2008

	2008	2007
ASSETS		
Non-current assets	4 626 000	2 209 000
Fixed assets	4 326 000	1 489 000
Financial assets	300 000	720 000
Current assets	2 557 000	2 508 000
Inventories (all trading stock)	1 640 000	1 510 000
Trade and other receivables (all trade debtors)	810 000	960 000
SARS (Income tax)	0	18 000
Cash and cash equivalents	107 000	20 000
TOTAL ASSETS	7 183 000	4 717 000
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	4 123 000	2 640 000
Ordinary share capital (R2,00 par value)	2 200 000	1 600 000
Share premium	710 000	200 000
Retained income	1 213 000	840 000
Non-current liabilities	1 980 000	700 000
Mortgage loan: Jozi Bank (13% p.a.)	1 980 000	700 000

Current liabilities	1 080 000	1 377 000
Trade and other payables (all trade creditors)	705 000	819 000
SARS (Income tax)	32 000	0
Shareholders for dividends	275 000	240 000
Bank overdraft	0	250 000
Current portion of loan	68 000	68 000
TOTAL EQUITY AND LIABILITIES	7 183 000	4 717 000

FINANCIAL INDICATORS:

The following financial indicators were calculated for the past two years:

	2008	2007
Debt/Equity ratio	?	0,27:1
Total assets to total liabilities	2,2:1	2,3:1
Current ratio	2,4:1	1,8:1
Acid-test ratio	?	0,7:1
Stock-turnover rate	?	2,4 times
Debtors collection period	51 days	72 days
Creditors payment period	49 days	67 days
% return on average shareholders' equity (after tax)	?	23,9 %
% return on total capital employed (before tax)	43,3 %	39,7 %
Net asset value per share	?	330 cents
Dividends per share	57 cents	65 cents
Earnings per share	95,2 cents	78,8 cents

GLEBO LIMITED**CASH-FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**

Cash effects of operating activities 744 000

Cash generated from operations

?

Interest paid

(134 000)

Dividends paid

(496 000)

Income tax paid

(a) ?

Cash effects of investing activities (3 217 000)

Purchase of fixed assets for new branches

(3 357 000)

Proceeds of sale of fixed assets

140 000

Cash effects of financing activities 2 810 000

Proceeds of issue of shares

(b) ?

Proceeds of increase in mortgage loan

(c) ?

Proceeds of financial assets matured

420 000

Net change in cash equivalents (d) ?

Cash equivalents – beginning of year

(230 000)

Cash equivalents – end of year

(e) ?

[70]

SECTION D: SOLUTIONS TO SECTION A
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QUESTION 1**1.1 FATTI'S SUPERMARKET LIMITED****CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**

	R'000
Cash flow from operating activities	<input checked="" type="checkbox"/> 108 080
Cash generated from operations	214 400
Interest paid	(12 000)
Dividends paid (28 000✓ + 66 500✓✓ – 38 000✓)	✓ (56 500)
Income tax paid	(37 820)
Cash effects of investing activities	<input checked="" type="checkbox"/> (31 080)
Purchase of fixed assets (922 000 000✓ – 160 000 000✓ – 15 000 000✓ – 898 080 000✓)	✓ (151 080)
Proceeds of sale of fixed assets	160 000
Increase in investments	(40 000)
Cash effects of financing activities	<input checked="" type="checkbox"/> 10 000
Proceeds of shares issued (150 000✓ + 60 000✓)	✓ 210 000
Loans repaid	200 000
Net change in cash & cash equivalents	✓ 87 000
Cash & cash equivalents at beginning of year	11 000
Cash & cash equivalents at end of year	✓ 98 000

(18)

1.2 CALCULATION OF FINANCIAL INDICATORS

WORKINGS:	ANSWER:
% Operating profit on sales $\frac{142\ 400}{942\ 400} \times 100 =$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 15,1%
% Return on shareholders' equity (after tax) $\frac{91\ 280}{1\ 107\ 390} \times 100$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 8,2%
Net asset value per share $\frac{1\ 224\ 780}{95\ 000}$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 1289 cents
Earnings per share $\frac{91\ 280}{95000} \times 100$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 96,1 cents
Stock turnover rate $\frac{640\ 000}{92\ 000}$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 7 times

(23)

1.3 Candidates should identify:

Assessment increase in salaries & wages

Comparison to directors' fees

Comparison to sales or profits

Figures which should be quoted:

Directors' fees went up by 10% (from R15m to R16,5m)

Salaries and wages went up by 40% (from R50m to R70m)

Sales went up by 51% (from R624m to R942,4m)

Operating profit went up by 19,7% (from R119m to R142,4m)

Possible responses for advice:

Remuneration committee - transparency

Dialogue with staff representatives / union

	0 marks	1-2 marks	3 marks
Two valid points identified from the question	Non-existent	Incomplete or unclear ✓	Complete and clear ✓✓✓
Supported by quoted figures	Non-existent	Incomplete ✓	Complete and valid ✓✓✓
Valid advice provided	Non-existent	Incomplete ✓	Complete and clear ✓✓✓

(9)

1.4 Reasoned opinion expressed – Yes ✓

Quoting of improvement in current ratio from 1.7:1 to 1,79:1 ✓✓

Quoting of improvement in acid test ratio from 0,4:1 to 1,3:1 ✓✓

Quoting of improvement in stock turnover rate from 3 to 7 times ✓\$☑

\$ method mark for transfer of figure from 4.2 – the stock turnover rate

(7)

1.5 Letter to indicate:

Improvement in ROSHE%

Improvement in EPS

Improvement in DPS

Payout rate - possibility of not retaining enough

Improvement in NAV

Undervalued on JSE – reason to be queried

All relevant issues raised for valid global opinion ✓✓✓✓✓✓

Financial indicators appropriately quoted ✓✓✓✓✓✓

Financial indicators correctly interpreted ✓✓✓✓✓✓

(18)

OR

Mention of trend in ROSE ✓ Quoting of ratios ✓

Mention of trend in ROCE ✓ Quoting of ratios ✓

Return on Shareholders' Equity improved from 5,4% to *8,2%

Return on Capital Employed improved from 8,55 to 9,4%

Valid comment made ✓

Shareholders should be happy with the above ratios. Had they invested their money elsewhere it would probably have been at a similar or less interest rate.

Earnings and dividends per share:*Mention of trend in EPS ✓ Quoting of ratios ✓***Mention of trend in DPS ✓ Quoting of ratios ✓**

The EPS increased from 67,4 cents to *96,1 cents per share

The DPS increased from 60 cents to 70 cents per share

Valid comment made ✓

There has been an improvement in both these indicators. It is therefore evident that shareholders have received more in this financial year than they did in the previous financial year.

Share price:*Mention of trend in NAV ✓ Quoting of ratios ✓***Mention of trend in market value of shares ✓ Quoting of ratios ✓**

The NAV improved from 1238 cents to *1289 cents.

The market value of the shares improved by 15% to R11,90.

Valid comment made ✓

There has been an improvement of NAV as well as the market price of shares which is a good indication of the share price.

Possible areas for future improvement:

Any valid suggestion for improvement ✓✓✓

Possible suggestions:

A concern however is that shareholders had paid R14 per share during this financial year which is considerably higher than the market value of R11,90. This means that the shares are undervalued on the JSE and should be investigated.

Although the Sales have increased considerably from 2% in the previous financial year to 51% this year, the operating profit on sales indicate a decline from 15,8% to *15,1%.

* award mark for transfer of figure from 4.2

(18)**TOTAL: 75**

QUESTION 2

NOTE TO THE BALANCE SHEET ON 28 FEBRUARY 2008

Tangible assets / Fixed assets

Vehicles

Equipment

Carrying value at beginning of year	370 000	260 000✓
Cost	480 000	390 000
Accumulated depreciation	(110 000)✓	(130 000)
Movements		
Additions at cost	150 000✓✓	0
Disposals at carrying value	0	(32 375)
Depreciation for the year 55500 + 16875	(72 375)✓✓✓	(36 375)
Carrying value at end of year	447 625☑	191 250☑
Cost	630 000	310 000✓✓
Accumulated depreciation	182 375✓✓	(118 750)✓✓

(15)

ASSET DISPOSAL

2007		Equipment		2007		Acc. Dep on equip✓	
Aug	31		80 000	Aug	31		47 625✓☑
						Debtors control	32 375✓✓
			80 000				80 000

(5)

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2008

Profit before taxation 126 000 + 54 000	180 000✓✓✓
Adjustment in respect of:	120 750
Depreciation 72 375☑ + 36 375✓	108 750☑
Interest expense	12 000✓
	300 750
Changes in working capital	(19 950)☑
Inventories	(29 950)✓✓
Debtors	3 000✓✓
Creditors	7 000✓✓
Cash effects of operating activities	280 800☑

(15)

CASH FLOWS FROM FINANCING ACTIVITIES	412 500☑
Ordinary share capital 300 000 + 67 500	367 500✓✓
Loan repayment	(14 400)✓✓
Loan raised 132 000✓ - (75 000✓ + 12 000✓ - 14 400✓)	59 400☑

(10)

1. INCOME TAX PAID	
54 000✓ + 5 250✓ + 4 000✓	63 250☑

(4)

2.5 Yes✓ or No (based on learner's figures)

Have raised a lot of capital (R412 500) that is not being utilised effectively in the company.✓✓✓

Net asset value R3.23 is shows an increase from last year of R2.64✓✓✓

The return on the ordinary shareholders equity is 7% which is below alternative investments✓✓✓ and below last year's return of 9%

Negative gearing – return (10.3%) is below the interest rate (14%) and below the return last year of 12%

Market value is R3.20 – below par value.

If NO then it must be qualified to earn the marks

(10)

TOTAL MARKS: 75