DECISIONS MADE BY BUSINESSES/COMPANIES

**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:**

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| **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**  |
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| **2018 FEB/MARCH** |
|  |  |  |
|  | **INFORMATION:** |  |
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|  | **A.** | **Information from the financial statements on 28 February:** |  |
|  |  |  |  |
|  |  |  | **2017** | **2016** |  |
|  |  | **R** | **R** |  |
|  |  | Net profit after income tax | 295 750 |  | 113 400 |  |  |
|  |  |  |  |  |  |  |  |
|  |  | Fixed assets (carrying value) | 4 934 450 |  | 3 993 390 |  | **Check Note 3 and**  |
|  |  |  |  |  |  |  | **additional information** |
|  |  | **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 |  |  |
|  |  |  |  |
|  | **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.
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| **C.** | **Share capital and dividends** |
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|   | * The company is registered with an authorised share capital of 1 000 000 ordinary shares.
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|  | * 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.
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|  |  |
|  | * A final dividend was declared on 28 February 2017.
 |

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| **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% |  |

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

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

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| 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) |
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| **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;

R1 308 930 (1 008 940 + 300 000) see 5.1(a) | * Leads to capital growth (future productivity)
* More assets in the company
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**MANUFACTURING ACCOUNTS (2017 OCT/NOV)**

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| **INFORMATION** |
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|  | **SHOES** |
|  | **2017** | **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 |

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|  |
| * Calculate the % increase in the selling price of shoes.
 |
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|  |  |
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| --- |
| 1 640–1 260 380 x 100 1 260 1  |

= 30,2%  |

 | (3) |
|  |  |
| * 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) |
|

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| * 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%)
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 |
| * 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) |
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| * 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).
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**FINANCIAL INDICATORS**

1. **FEB/MARCH**

#  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.

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| **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)

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| **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
 |

* + 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.

|  |
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| * 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**

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| 6.4 .Tony compared the budgeted figures to the actual figures for April 2018.  |

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|  | **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
 |