CCMM 517: FINANCIAL REPORTING

GROUP ASSIGNMENT: (18 APRIL 2019) **TOTAL: [70]**

ANSWER SHEET

%

NB: PLEASE INDICATE THE NAMES, SURNAMES AND STUDENT NUMBERS OF ALL THE MEMBERS IN THE STUDY GROUP!!!

STUDY GROUP NAME:

NAME AND SURNAME	STUDENT NUMBER
TUMELO LEPHOLLETSE	31010865
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LETTA GOMBA	31488196

QUESTION 1: (20 MARKS) __________

QUESTION 2: (30 MARKS) __________

QUESTION 3: (20 MARKS) __________

TOTAL: [70]

QUESTION 1: (20 MARKS)

Question 1.1	**A**	**B**	**C**	**D**	**E**	**(2)**
Question 1.2	**A**	**B**	**C**	**D**	**E**	**(2)**
Question 1.3	**A**	**B**	**C**	**D**	**E**	**(2)**
Question 1.4	**A**	**B**	**C**	**D**	**E**	**(2)**
Question 1.5	**A**	**B**	**C**	**D**	**E**	**(2)**
Question 1.6	**A**	**B**	**C**	**D**	**E**	**(2)**
Question 1.7	**A**	**B**	**C**	**D**	**E**	**(2)**
Question 1.8	**A**	**B**	**C**	**D**	**E**	**(2)**
Question 1.9	**A**	**B**	**C**	**D**	**E**	**(2)**
Question 1.10	**A**	**B**	**C**	**D**	**E**	**(2)**

(20)

CALCULATIONS:

QUESTION 2: (30 MARKS)

2.1 **(25)**

CHRISCO TRADERS / CHRISCO HANDELAARS		
STATEMENT OF FINANCIAL POSITION / STAAT VAN FINANSIËLE POSISIE		
ON 31 DECEMBER 2017 / OP 31 DESEMBER 2017		
	R	**R**
Assets		
Non-current assets		**1 275 000**
Land and building	800 000	
Investment: Invest Bank	50 000	
Equipment at cost price	360 000	
Accumulated depreciation on equipment	(175 000)	
Vehicles at cost price	800 000	
Accumulated depreciation on vehicles	(560 000)	
Current assets		**370 160**
Inventory	160 000	
Debtors control	186 000	
Less: Provision for credit losses	(12 440)	
Prepaid expenses	6 600	
Bank	30 000	
TOTAL ASSETS		**1 645 160**
Equity and liabilities		
Owner's equity		**744 160**
Capital	740 000	
Plus: Net profit	104 160	
Less: Drawings	(100 000)	
Non-current liabilities		**730 000**
Loan: Friendly Bank	170 000	
Mortgage bond: Help Bank	560 000	
Current liabilities		**113 000**
Creditors	100 000	
Accrued expenses	13 000	
TOTAL EQUITY AND LIABILITIES		**1 587 160**

2.2 **(5)**

CHRISCO TRADERS / CHRISCO HANDELAARS	
NOTE: OWNER'S EQUITY (CAPITAL) / NOTA: EKWITEIT (KAPITAAL)	
FOR THE YEAR ENDED 31 DECEMBER 2017 / VIR DIE JAAR GEËINDIG31 DESEMBER 2017	
	R
Capital at beginning of year	440 000
Additional Contributions	300 000
Net Profit for the year	104 160
Withdrawls	(100 000)
TOTAL	**744 160**

[30]

VRAAG 3 / QUESTION 3 (20 PUNTE / 20 MARKS)

3.1

A) CURRENT RATIO

CURRENT ASSET:CURRENT LIABILITIES

77 000 /46 600

1.65 : 1

(1)

B) ACID TEST RATIO

CURRENT ASSET – INVENTORY : CURRENT LIABILITIES

77 000 – 32 000 : 46 600

0.97 : 1

(1)

C) DEBTORS COLLECTION PERIOD (IN DAYS)

AVERAGE DEBTORS : CREDIT SALES * 365

(22 200+41 400)/2 : (120 000*80%)*365

63 600/2 : 96 000*365

31 800/96 000*365

0.33*365

121 DAYS

(1)

D) CREDITORS PAYMENT PERIOD (IN DAYS)

AVERAGE CREDIT PURCHASES: COST OF SALES*365

(38 600 +17 350)/2 : 108 000*365

55 950/2 : 108 000*365

27 975/108 000*365

0.26*365

95 DAYS

(1)

E) INVENTORY TURNOVER RATE (TIMES PER YEAR)

COST OF SALES / AVERAGE INVENTORY

= (R108 000 000 / (R16 800 000 + R32 000 000 / 2))

= (R108 000 000 / R24 400 000)

= 4,43 TIMES PER YEAR

(1)

F) GROSS PROFIT PERCENTAGE

(GROSS PROFIT / NET SALES) *100

= ((R120 000 000 – R108 000 000) / R120 000 000)) *100

= (R12 000 000 / R120 000 000) *100

= 10%

(1)

G) NET PROFIT PERCENTAGE

(PROFIT AFTER-TAX / NET SALES) *100

= (R3 500 000 / R120 000 000) *100

= 2,92%

(1)

H) RETURN ON EQUITY (CAPITAL)

(PROFIT AFTER TAX / SHAREHOLDER'S EQUITY) *100

= (R3 500 000 / R56 800 000) *100

= 6,16%

(1)

I) DEBT EQUITY RATIO

TOTAL LIABILITIES: TOTAL EQUITY

= R52 900 000: R56 800 000

= 0,93: 1

(1)

3.2 REPORT TO FLOWER Ltd

The liquidity position of flower ltd is not looking good as the current ratio decreased from 2,01:1 in 2015 to 1,65:1 in 2016, which is below the norm of 2,1:1. This means that flower ltd will not be able to achieve its short-term obligations due to cash flow constraints.

The acid-test ratio is standing at 0,97:1 in 2016 which is also below its norm of 1:1. The fact that both the acid-test ratio and current ratio are below the norm indicates that the business carries a lot of stock.

The inventory turnover rate slighty increased from 4,2 to 4,43 times per year, which indicates that the company can effectively "turn" its stock into cash.

The gross profit percentage decreased from 15% in 2015 to 10% in 2016. This shows that the selling prices of flower ltd also decreased and they will have less money available to pay operating expenses.

The nett profit percentage saw a slight improvement from 2,5% to 2,92% which is good for the company as indicates that the flowe ltd are managing its operating expenses well.

An increase in the return on equity (from 6% to 6,16%) is indicative of how efficient the company is in using its shareholders's funds comparative to the previous year.

The debt/equity ratio increased from 0,52:1 to 0,93:1 which suggests that the company is financing a larger amount of its growth through borrowing and is thus not financially stable.

The creditors payment period also increased from 89 days to 95 days , which is not bad for the company as it gives them more time to settle their debts and maximise its profits, yet it can also be a sign that the company is facing cash flow problems.

The main concern would be the debtors collection period which is significantly higher than the proposed credit term offered by flower ltd, namely 90 days. It increased from 106 days to 121 days which shows a reduced collection efforts from the company. This means that customers take an additional month to settle their debts which can lead to cash flow problems for the company.

The company also declared and paid dividends of R1 250 000 in 2016 as compared to R950 000 in 2015 which further reduces the cash balance of the company.

I would advise that flower ltd invoke penalties, such as interest, if customers do not pay within the proposed 90 days. They could also decrease the 90 days credit term to 30 days as customers take long to pay their debt and encourage customers to pay within the 30 days by offering early payment discounts.

(11)

TOTAL: [70]