NWU®

CCMM 517 FINANCIAL REPORTING

GROUP ASSIGNMENT (24 APRIL 2020) **Marks: [45]**

NB: Please use the answer sheet provided.
You may use non-programmable calculators.
SUBMIT ONLY ONE ASSIGNMENT PER GROUP!

QUESTION 1: (33 MARKS)

Catwalksale (Pty) Ltd ("Catwalksale") is a web-based company situated in Cape Town, which sells and produces designer brands at discount prices by hosting flash events. Catwalksale offers high-end fashion brands at a discounted price, but for a limited time only. They send out notifications (emails, Facebook updates or tweets) to let their members-only community know when an event starts. It has grown to be South Africa's largest members-only private online shopping club.

You are the CEO of Wool-on Ltd ("Wool-on"), a very successful clothing retailer listed on the Johannesburg Stock Exchange. Wool-on is a major consumer of the products sold by Catwalksale – in fact, they are one of Catwalksale's biggest customers. The financial director of Catwalksale has recently set up a meeting with you, to discuss whether Wool-on would be willing to provide a short-term, un-secured loan to Catwalksale, as they are experiencing short-term cash flow problems. Catwalksale is willing to pay interest on this short-term loan at current market related interest rates. The reason for their cash flow problem, is due to the strict water restrictions that have been imposed in the Western Cape. They need to use a lot of water to produce some clothing items, and had to pay large penalties due to the overuse of water.

Catwalksale has however signed an agreement with a company in Durban, to provide them with the necessary clothing items, at a premium, until the water crisis is overcome. This reduced their production and water use. The South-African weather bureau is very optimistic that the Western Cape will receive sufficient rain during the coming winter months in 2019.

The financial director has given you access to extracts from the financial statements of Catwalksale for the past two years, as well as additional information.

ADDITIONAL INFORMATION:

Financial Indicators/Ratios	2018	2017
A. Current ratio	?	2.92 : 1
B. Acid test ratio	?	1.28 : 1
C. Debtors collection period	?	16 days
D. Creditors payment period	?	27 days
E. Inventory turnover rate	?	24 times/year
F. Gross profit percentage	?	35%
G. Net profit percentage	?	10,29%
H. Return on equity	?	210,53%
I. Debt equity ratio	?	0.74

Catwalksale (Pty) Ltd

Extract from the statement of profit or loss and other comprehensive income for the year ending 31 December 2018:

	2018	2017
Revenue (40% on credit)	3 550 000	3 500 000
Cost of sales (30% on credit)	(2 307 500)	(2 275 000)
Net profit after tax	50 000	360 000

Catwalksale (Pty) Ltd
Statement of financial position as at 31 December 2018:

	2018	2017
Assets		
Property, plant and equipment	125 000	120 000
Current assets	**188 000**	**178 000**
Inventory	110 000	100 000
Trade debtors	75 000	66 000
Other receivables	3 000	4 000
Cash and cash equivalents	0	8 000
Total assets	**313 000**	**298 000**
Equity and liabilities		
Ordinary shares	51 000	51 000
Retained earnings	125 000	120 000
Long-term loans	47 000	66 000
Current liabilities	**90 000**	**61 000**
Trade creditors	66 000	53 000
Income tax	4 000	8 000
Bank overdraft	20 000	0
Total equity and liabilities	**313 000**	**298 000**

REQUIRED:

1.1 Use the financial information provided to calculate the following ratios for the year ending 31 December 2018:

A. Current ratio; (2)
B. Acid test ratio; (2)
C. Debtors collection period (in days); (2)
D. Creditors payment period (in days); (2)
E. Inventory turnover rate (times per year); (2)
F. Gross profit percentage; (2)
G. Net profit percentage; (2)
H. Return on equity; and (2)
I. Debt equity ratio. (2)

1.2 As CFO of Wool-on Ltd you have to compile a report about the financial position of Catwalksale – which will be delivered to the board. Use the ratios calculated in 1.1 to compare with the previous year's ratios. Suggest areas of strengths and weaknesses and make recommendations to the board whether they should provide the loan to Catwalksale (Pty) Ltd - or any other alternatives available. (15)

IMPORTANT:

- Carefully study all provided information, the statement of profit or loss and other comprehensive income and the statement of financial position provided to calculate the ratios and to compile your report.
- Round off all calculations to two decimal points and show formulas.
- Assume 365 days in a year.

QUESTION 2: (12 MARKS)

The following information has been extracted from the records of All Aboard Ltd. that sells small boats and boating accessories across the country. The following information has been extracted for the year ended 30 September 2018.

All Aboard Ltd
Extract from the statement of profit or loss and other comprehensive income for the year ended 30 September 2018

	R
Gross profit	2 400 000
Other operating expenses	(1 580 000)
Operating profit	820 000
Other operating income	
Profit on sale of equipment	12 000
Profit from operations	832 000
Financing activities	
Investment income – dividends	68 000
Interest on mortgage bond	(164 000)
Profit before tax	736 000
Income tax	(187 040)
Profit for the year	**548 960**

All Aboard Ltd
Cash flow statement for the year ended 30 September 2018

	R
Cash flow from operating activities	**115 960**
Cash received from customers	5 850 000
Cash paid to suppliers and employees	(5 010 000)
Net cash generated by operations	840 000
Dividends received	68 000
Interest received	-
Dividends paid	(410 000)
Interest paid	(164 000)
Tax paid (income tax & VAT)	(218 040)
Cash flow from investment activities	**(1 644 400)**
Increase in investments	(314 400)
Purchase of land for expansion	(1 200 000)
Proceeds from sale of machinery	30 000
New equipment for expansion	(160 000)
Cash flow from financing activities	**1 000 000**
Increase in mortgage bond	550 000
Issue of ordinary shares	450 000
Net increase(decrease) in cash and cash equivalents	**(528 440)**
Cash & cash equivalents at beginning of period	29 000
Cash & cash equivalents at end of period	(499 440)

REQUIRED:

2.1 You are the Financial Manager of All Aboard Ltd. The shareholders asked you to explain why the company is so cash-strapped; while the CEO is telling them they are making profits. By using the financial information provided to you above, write a formal e-mail to the shareholders explaining the reasons for the misunderstanding. (12)

TOTAL: [45]