



COMPANIES-RATIO ANALYSIS AND INTERPRETATION

You are provided with information relating to Rose Ltd.

REQUIRED: Refer to the information provided in order to answer the following questions.

1. Calculate the following for 2018:
 - 1.1.1 Acid test ratio (3)
 - 1.1.2 Stock turnover rate (4)
 - 1.1.3 Debt/equity ratio
 - 1.1.4 Net asset value per share (3)
 - 1.1.5 Earnings per share (3)

- 1.2 Does the company have a liquidity problem? Briefly explain, quoting THREE relevant liquidity ratios (financial indicators) to support your answer. (3)

- 1.3 As a shareholder in this company, would you be satisfied with the earnings per share, dividend per share and return on shareholders' equity? Briefly explain, quoting relevant financial indicators (ratios or percentages). (3)

- 1.4 The directors require another R600 000 to finance further expansions of the company. Credbank will not grant them additional loans. There are two options remaining:

OPTION A: Obtain a loan from Shifty at an interest rate of 24% p.a.

OR

OPTION B: Issue new shares at a premium of 50 cents per share.

- 1.5.1 In your opinion, which option should they choose?
- 1.5.2 Briefly explain why you would choose this option and why you would reject the other option. Quote TWO financial indicators from your answer to QUESTION 1.3 to support your opinion. (4)

- 1.6 The managing director has approached you for advice. He currently owns 306 000 shares (that is 51% of the issued capital). He is worried that he will lose control of the company if all the unissued shares are issued to the public.
 - 1.7.1 Calculate the minimum number of new shares he will have to buy to retain control of the company. (2)
 - 1.7.2 If the shares are issued at a premium of 50c, what would he have to pay for the new shares? (2)

- 1.7.3 In your opinion, would this represent a fair value for these shares? Quote a financial indicator to support your answer. (2)
- 1.8.1 What is meant by “corporate social investment” and why is it important for a company to report on this? (2)
- 1.8.2 What is the difference between liquidity and solvency? (4)
- 1.9.1 Complete the missing information in the cashflow statement. (10)

INFORMATION

ROSE LIMITED	
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2018	
Cash flow from operating activities	
Cash generated from operations	1 493 600
Interest paid	(a)
Dividends paid	(222 000)
Taxation paid	(b)
Cash flow from investing activities	
Purchased of fixed assets	(2 599 000)
Proceeds of sale of fixed assets	(c)
Cash flow from financing activities	
Proceeds of shares issued	(d)
Loans raised	720 000
Net change in cash and cash equivalents	(e)
Cash and cash equivalents at beginning of year	39 600
Cash and cash equivalents at the end of the year	52 800

The following financial indicators were calculated for the past two years:	2018	2017
Current ratio	0,9 : 1	1,7 : 1
Acid-test ratio	?	0,6 : 1
Stock turnover rate	?	6 times
Debt/equity ratio	?	0,8 : 1
Return on shareholders' equity (ROSHE)	12,3%	11%
Return on total capital employed (ROTCE) before Tax	15%	13%
Interest rate on borrowed money	12%	12%
Net asset value per share (NAV) ³	?	534 cents

ACCOUNTING

Earnings per share (EPS)	?	53,5 cents
Dividend per share (DPS)	43 cents	29 cents

ROSE LIMITED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE	2018	2017
Sales	5 678 800	4 040 500
Cost of sales	(3 294 000)	(2 118 000)
Gross profit	2 384 800	1 922 500
Depreciation	(440 000)	(300 000)
Other operating expenses	(1 106 000)	(980 500)
Operating profit	838 800	642 000
Interest on long-term loan (capitalised)	(309 600)	(252 000)
Net profit before tax	529 2000	390 000
Income tax	(158 700)	(117 000)
Net profit after tax	370 500	273 000

ROSE LIMITED BALANCE SHEET AS AT 30 JUNE	2018	2017
Non-current/Fixed assets (see note 1 below)	6 278 200	4 699 200
Current assets	308 480	604 800
Inventories (all trading stock)	180 080	390 000
Trade and other receivables	75 600	163 200
SARS: Income tax	-	12 000
Cash and cash equivalents	52 800	39 600
TOTAL ASSETS	6 586 680	5 304 000
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	3 318 000	2 724 000
Ordinary share capital (see note 2 below)	2 400 000	2 040 000
Share premium	409 500	288 000
Retained income	508 500	396 000
Non-current liability: Loan (see note 3 below)	2 940 000	2 220 000
Current liabilities	328 680	360 000
Trade and other creditors	175 280	258 000
SARS: Income tax	15 400	-
Shareholders for dividends	138 000	102 000
TOTAL EQUITY AND LIABILITIES	6 586 680	5 304 000

Notes to the Balance sheet:

- Fixed assets: Certain fixed assets were sold at book value during the year.
- Share capital: Authorised share capital comprises 700 000 ordinary shares of R4 par value. New shares were issued on the first day of the financial year.
- Loan from Credbank: All payments of loans and interest are up to date, but Credbank will not grant any further loans to this company.

