

SESSION 5: BALANCE SHEET & CASH FLOW STATEMENT

KEY CONCEPTS:

 Focus on transactions involving shares and how these effect the balance sheet and cash flow statement.

X-PLANATION

FORMAT OF THE STATEMENT OF FINANCIAL POSITION(BALANCE)

Note 7.	Ordinary share capital	
	Authoricad	
	Authorised	
	Number of authorised ordinary shares:	
	500 000 shares	
	Issued	R
	300 000 shares in issue at beginning of year	1 500 000
	200 000 shares issued during year at R7,00 per share	1 400 000
	80 000 shares repurchased during year (average issue price R5.80 per share)	(464 000)
	420 000 shares in issue at end of year ***	2 436 000

***Note:

After the repurchase of 80 000 shares, average issue price of 420 000 shares remains R5.80.

Note 8.	Retained income	
		R
	Retained income at beginning of the year	620 000
	Net profit after tax for the year	840 000
	Retained income on 80 000 shares	(160 000)
	repurchased	
	Dividends	(351 000)
	Interim (300 000 shares x R0.40)	(120 000)
	Final (420 000 shares x R0.55)	(231 000)
	Retained income at end of the year	949 000





XYZ LIMITED

Extract from the Balance Sheet on 30 June 2013

	Note	R
SHAREHOLDERS' EQUITY		3 385 000
Ordinary share capital	7	2 436 000
Retained income	8	949 000

XYZ LIMITED

Extract from the Cash Flow Statement for the year ended 30 June 2013

	R
Cash effects of financing activities	1 276 000
Proceeds of shares issued	1 400 000
Repurchase of shares (160 000 + 464 000)	(624 000)
Proceeds of loan received	500 000

X-AMPLE QUESTIONS:

QUESTION 1:

REPURCHASE OF SHARES & INTERPRETATION (50 marks; 30 minutes)

You are provided with information relating to Prospect Limited for the year ended 31 March 2013. The CEO Ronnie Phosa, together with his children, owns 150 000 shares in the company.

Where explanations or comments are required, you are required to quote figures or financial indicators to support your explanations.

REQUIRED:

- 1.1 Shareholders' equity section of the Balance Sheet on 31 March 2013. (6)
- 1.2 Notes for:
 - Ordinary share capital (13)
 - Retained income. (15)
- 1.3 Calculate the Net Asset Value per share on 31 March 2013 after the repurchase of the shares from the Gaptu family. (4)
- 1.4 The Gaptu family were keen to sell their shares because they were unhappy with the low pay-out policy that the directors were using in deciding on dividends. In your opinion, are their complaints valid or not? Explain. (4)
- 1.5 Have the Gaptu family been offered a fair value for their shares? Explain. (3)
- 1.6 In your opinion, will the repurchase of the shares from the Gaptu family benefit the remaining shareholders or not? Explain. (5)



INFORMATION:

- 1. The ordinary share capital on 1 April 2012 consisted of:
 - 250 000 ordinary shares issued in the 2010 financial year at R5,00 per share
 - 150 000 ordinary shares issued in the 2011 financial year at R7,00 per share.
- 2. Retained income on 1 April 2012 amounted to R1 960 000.
- 3. The following changes occurred to share capital during the 2013 financial year:
 - On 1 October 2012, 100 000 new ordinary shares were issued at R9,00 per share. These shareholders are not entitled to interim dividends.
 - On 31 March 2013, the directors decided to repurchase 220 000 ordinary shares from members of the Gaptu family who were no longer interested in being shareholders. These shareholders had originally bought most of their shares on the JSE at different prices and at different times. The repurchase price was R10,70 per share. These shareholders are entitled to all dividends for the 2013 financial year.
- 4. Additional information for the past two financial years:

	i illaliciai yeal ellueu.		
	31 March	31 March	
	2013	2012	
Net income after tax	R1 600 000	R2 200 000	
Ordinary shareholders' equity at year-end	?	R4 260 000	
Number of shares in issue at year-	?	400 000	
end	:	shares	
Market price per share on the JSE	1 040 cents	1 040 cents	
Net asset value per share	?	1 065 cents	
Earnings per share	356,6 cents	488,9 cents	
Interim dividends	70 cents	90 cents	
Final dividends	102 cents	140 cents	

Financial year ended:



ANSWER BOOK QUESTION 1.

UE	STION 1:		
.1	PROSPECT LIMITED EXTRACT FROM THE BALANCE SHEET ON		RCH 2013
		Note	
.2	NOTES TO THE FINANCIAL STATEMENTS		
	Note 7. SHARE CAPITAL		
	Note 8. RETAINED INCOME		
	Balance at beginning of year		
	Balance at end of year		



MEMO

QUESTION 1

1.1 PROSPECT LIMITED EXTRACT FROM THE BALANCE SHEET ON 31 MARCH 2013

Note	See notes 7 8	<u>ę</u>		
		8		

Shareholders' equity ✓		☑ 3 616 000
Ordinary share capital ✓	7.	☑ 1 792 000
Retained income ✓	8.	☑ 1 824 000

6

1.2 NOTES TO THE FINANCIAL STATEMENTS

Note 7. SHARE CAPITAL

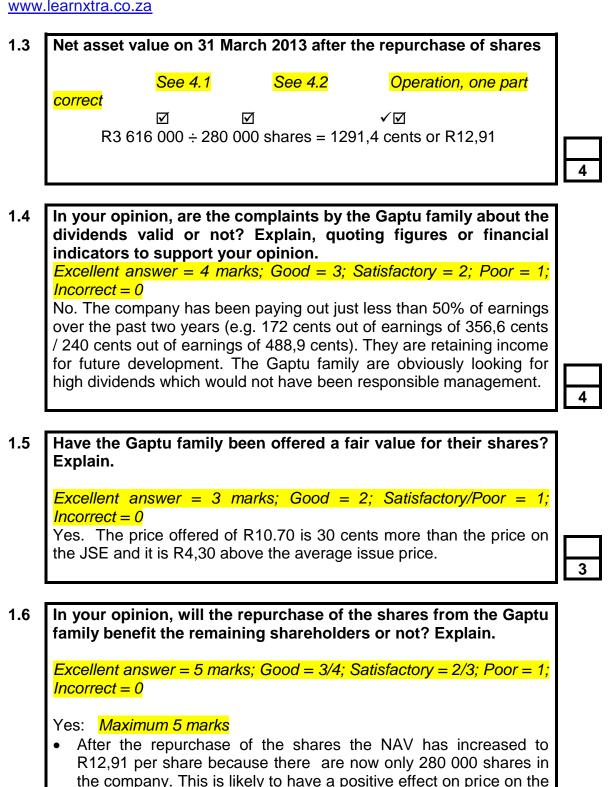
	√ 400 000 ordinary shares in issue at beginning of			
	year	✓ 2 300 000		
	(1 250 000 ✓ +	7 2 300 000		
	1 050 000 ✓)			
	√ 100 000 ordinary shares issued during year at	✓ 900 000		
	R9,00 ✓ each	7 900 000		
	√ 220 000 shares repurchased (R6,40 √√ average)			
	price)	☑ (1 408 000)		
	One part	(1 400 000)		
	correct		I	
	√ 280 000 ordinary shares in issue at end of year	☑ 1 792 000		13
ı		= : : 02 000	Ц	

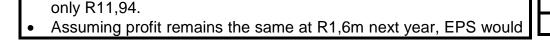
Check operation

Note 8. RETAINED INCOME

Balance at beginning of year	√ 1 960 000
✓ Net profit after tax	✓ 1 600 000
✓ Repurchase of 220 000 shares <pre>part correct</pre> (at R4,30 above average price)	☑ √√ (946 000)
✓ Dividends for year	(790 000)
Interim (400 000 ✓ x 70c ✓)	√ 280 000
Final (500 000 ✓ x 102c ✓)	√ 510 000
Balance at end of year <u>Check operation</u>	☑ 1 824 000







If the repurchase had not taken place, the NAV would have been



JSE.



www.learnxtra.co.za

be 571,4 cents (because of fewer shares) compared to 356,6 cents in 2013. This will also have a positive effect on share price and dividends per share.

OR

No: Maximum 2 marks

• Equity is reduced by R2 354 000 as a result of the repurchase. This will severely affect the operating activities of the company.

Workings:

If the repurchase of 220 000 had not taken place:

OSHE would = R3 200 000 + R2 770 000

= R5 970 000

NAV would = R5 970 000 \div 500 000

shares = R11,94

Assuming profit remains the same next year at R1 600 000:

EPS would = R1 600 000 ÷ 280 000 = 571,4 cents

50

