

Question : Financial Statements and Analysis

Below are the financial statements of Zakaria (Pty) Limited for the year ended 31 December 2011.

Income statement for 2011

Sales	R160 000
Cost of goods sold	<u>(R106 000)</u>
Gross profit	R 54 000
Other expenses	(R 27 000)
Administrative expenses	<u>(R 10 000)</u>
Operating profits (EBIT)	R 17 000
Interest paid	<u>(R 6 100)</u>
Profits before tax	R 10 900
Income tax (40%)	<u>(R 4 360)</u>
Net profit for the year	<u>R 6 540</u>

Balance sheet as at 31 December 2011

Assets	R	Liabilities and Equity	R
<i><u>Current assets</u></i>		<i><u>Current liabilities</u></i>	
Inventories	45 500	Accounts payable	22 000
Accounts receivables	25 000	Notes payable	<u>47 000</u>
Cash	<u>1 500</u>	Total current liabilities	<u>69 000</u>
Total current assets	<u>72 000</u>	Long-term debt	22 950
Net fixed assets	78 000	Shareholders' equity:	
		Ordinary shares	31 500
		Retained earnings	<u>26 550</u>
Total assets	<u>150 000</u>	Total equity and liabilities	<u>150 000</u>

Required

- 1.1 Use the above financial statements to **complete** the following table. **(10 marks)**
(Do not show your workings in the table.)

Assumptions:

- The industry averages given in the table apply to both 2010 and 2011.
- Assume a 365-day year in your calculations.
- Use end-of-year figures for inventory.

(a) Ratio table

Ratio	Industry average	Actual 2010	Actual 2011
Current ratio	1,80	1,84	
Quick ratio	0,70	0,78	
Inventory turnover	2,50	2,59	
Average collection period	37,5 days	36,5 days	
Debt ratio	65%	67%	
Times interest earned or interest coverage ratio	3,8	4,0	
Gross profit margin	38%	40%	
Net profit margin	3,5%	3,6%	
Return on total assets (ROA)	4,0%	4,0%	
Return on shareholders' equity (ROE)	9,5%	8,0%	

1.2 What conclusions can you draw about the financial condition of **Zakaria (Pty) Limited** under the following headings? **(5 marks)**

(a) Liquidity

(b) Activity

(c) Debt

(d) Profitability

(e) Overall company performance