5. Cash flow statements

Cash Flow Statement

This financial statement MUST be prepared by companies, but may also prove useful for other forms of ownership. It shows how **cash** has been generated and utilised during a financial period. It is important to realise that a healthy cash flow is just as important as profitability for a business' survival.

In an exam

You will usually be given comparative financial statements, from which you need to calculate the cash effect of changes during the year, then use this information to draw up the cash flow statement.

1. As always, try to use each piece of information as it is given to you.
2. You may find T-accounts useful – show beginning and end balances, as well as any changes that you know about, then calculate the missing figure as the balancing amount. You will usually use
   - Interest expense, SARS (income tax) and Shareholders for dividends to calculate the amount paid (bank figure)
   - Tangible assets at carrying value to calculate depreciation, asset bought or sold
   - Appropriation account to calculate profit, tax or dividends for the year.
3. Make sure you have filled in everything you can, then check that the change in cash you have calculated is in fact the actual change experienced by the business.

The basic layout of a cash flow statement is as follows:

Cash flows from operating activities (current – profit and working capital i.e. inventory, receivables and payables.) **Cash flows from investing activities** (non-current assets) **Cash flows from financing activities** (equity and non-current liabilities)
Net change in cash and cash equivalents

Use any QR reader on your device to be directed to a YouTube video on this topic

Notes are used for your calculations, as for the other financial statements.

- Reconciliation between NPBT and cash generated by operations to show adjustments for depreciation (non cash item), interest (not operating expense so shown on face of CFS) and change in working capital (inventory, debtors and creditors)
- Cash and cash equivalents to show changes in each item

Tricky bits…
When working out the changes in debtors and creditors (in the reconciliation note), exclude all the amounts already used for tax, dividends and interest paid. Quite simply, look at your note for receivables or payables, cross out the lines for SARS (Income tax), Shareholders for dividends and Interest accrued, and use everything else.

My mistakes

5.1. Barbara Williamson Paper 1 General ledger and cash flow statement

(50 marks; 30 minutes)

Information relating to Clarkson (Proprietary) Limited for the year ended 31 March 2015:

Clarkson (Pty) Ltd **Statement of income for the year ended 31 March 2015**	**R000's**
Current income	1 780
Operating expenses	(1 245)
Operating profit	535
Interest on loan	(50)
Profit before taxation	485
Taxation	(135)
Net profit for the year	350

Statement of financial position as at 31 March	**2015** **R000's**	**2014** **R000's**
ASSETS		
Non-current assets	1 640	1 390
Current assets	905	480
Total assets	2 545	1 870
EQUITY AND LIABILITIES		
Shareholders' equity	1 920	1 800
Ordinary share capital (150 000 shares in issue)	1 750	1 500
Retained earnings	170	300
Non-current liabilities	500	-
Current liabilities	125	70
Total equity and liabilities	2 545	1 870

Notes to the financial statements for the year ended 31 March **Trade and other receivables**	**2015** **R000's**	**2014** **R000's**
Trade receivables	413	468
SARS (VAT)	68	
SARS (Income tax)		7
	481	475

Trade and other payables	**2015** **R000's**	**2014** **R000's**
Trade payables	20	4
SARS (VAT)		6
SARS (Income tax)	5	
Shareholders for dividends	100	60
	125	70

Additional information:

1. Clarkson Limited (a public company) decided to convert to a private company. In order to do so, 100 000 public shares in issue were bought back on 28 February 2015 at market value (R13 each) before new shares could be issued to the existing shareholders who were to retain ownership of Clarkson (Proprietary) Limited, the private company. 100 000 new shares were then issued at R12,50 each on 1 March 2015 to the private shareholders.
2. The income tax return was submitted via e-filing on 5 July 2014, and the refund due was received from SARS on the same day.
3. Two provisional tax payments were made on 20 September 2014 (R50 000) and 25 March 2015 (R80 000) respectively.
4. The VAT owed to SARS for the period 1 December 2014 to 31 January 2015 was paid on 10 February 2015, when the VAT return was submitted via e-filing.
5. The bookkeeper calculated Input VAT for the current VAT period as R14 500, and Output VAT as R26 000. However, she had forgotten to take into account the 15% VAT on the tangible assets bought and those sold at carrying value on 31 March 2015. The cash amount received for the old assets sold was R80 500.

Required:

1. Complete the following accounts for the two months ended 31 March 2015:

1.1. Ordinary share capital (8)

1.2. SARS (Income tax) (9)

2014 April	**1**	**Balance**	**b/d**	**7 000**					

1.3. SARS (VAT) (11)

					2015 Feb	**1**	**Balance**	**b/d**	**6 000**

2. Complete the Statement of Cash Flows for the year ended 31 March 2015 and note.
Note: Remember to show all amounts in **R 000's**. (22)

Clarkson (Pty) Ltd - Statement of cash flows for the year ended 31 March 2013	**R 000's**
Cash flows from operating activities	
Dividends paid	(140)
Cash flows from investing activities	(530)
Proceeds from sale of non-current assets	70
Purchase of new non-current assets	(600)
Cash flows from financing activities	
Proceeds from increase in interest-bearing borrowings	500
Net change in cash and cash equivalents	
Cash and cash equivalents at 1 April 2014	5
Cash and cash equivalents at 31 March 2015	424

1. Reconciliation between profit before tax and cash generated by operations

	R 000's
Profit before tax	
Adjusted for:	
Operating profit before changes in working capital	
Changes in working capital	
Increase in payables	10
Cash generated by operations	

50

5.2. Barbara Williamson Paper 1 (45 marks; 27 minutes)

Refer to the information sheet for information relating to the accounting records of Barker Ltd., and figures already entered for you.

Information relating to Barker Ltd. For the year ended 30 June 2016:

Extract from the **Statements of Comprehensive Income for the year ended 30 June:**

	2016 Rm	2015 Rm
Operating profit	542	540
Finance costs	(7)	(80)
Profit before taxation	535	460
Taxation	(150)	(130)
Net profit for the year	385	330

Statement of Financial Position as at 30 June

	2016 Rm	2015 Rm
ASSETS		
Non-current assets	1 880	1 900
Tangible assets	1 880	1 800
Financial assets	-	100
Current assets	176	186
Inventory	100	104
Trade and other receivables	70	76
Cash and cash equivalents	6	1
Total assets	2 056	2 086
EQUITY AND LIABILITIES		
Shareholders' equity	1 935	1 400
Share capital	1 320	1 000
Retained earnings	615	400
Non-current liabilities	50	550
Loan: Bodley Bank	50	550
Current liabilities	71	136
Trade and other payables	71	116
Bank overdraft	-	20
Total equity and liabilities	2 056	2 086

Extract from the **Notes to the financial statements for the year ended 30 June**

Trade and other payables	2016 Rm	2015 Rm
Trade creditors	27	31
Accrued expenses	24	10
SARS (Income tax)	20	10
Shareholders for dividends	-	65
	71	116

Retained earnings	2016 Rm	2015 Rm
Balance at beginning of the year	400	
Net profit for the year	385	330
Dividends	(20)	(100)
Repurchase of shares	(150)	-
Balance at end of the year	615	400

Additional information:

1. Tangible asset movements during the year:
1.1. Old assets were sold for R90m, at a profit of R5m.
1.2. New assets were bought.

2. Share capital
2.1. 20 million shares were in issue on 30 June 2015.
2.2. 5 million new shares were issued on 1 July 2015 to raise R500m.
2.3. 3 million shares were bought back on 25 June 2016.

3. Interest on the loan is not capitalised. All interest due to date was paid. A once off loan payment was made on 31 July 2015.

Required:

1. Complete the note for Reconciliation of Profit before Tax and Cash Generated by Operations. (17)

	Rm
Profit before tax	
Adjusted for:	
Depreciation (	
*	
Operating profit before changes in working capital	
Changes in working capital	
* inventory (	
* in receivables (	
* in payables (	
Cash generated by operations	

2. Draw up the **Cash Flow Statement for the year ended 30 June 2016**. (18)

	Rm
Cash flows from operating activities	
Cash generated by operations	
Interest paid	(7)
* (	
* (	
Cash flows from investing activities	(20)
Proceeds from disposal of tangible assets	90
Purchase of new non-current assets	(210)
*	
Cash flows from financing activities	
*	
Buy-back of shares (	
*	
Net change in cash and cash equivalents	25
Cash and cash equivalents at the beginning of the year	
Cash and cash equivalents at the end of the year	

(Please turn over)

3. Consider the new share issue.
3.1. What were the funds from this share issue used for? (1)

3.2. Why might the directors have made the decision to use the funds as you have suggested in 3.3.1.? Suggest TWO reasons. (2)

-
-

4. Consider the dividends for the year.
4.1. What amount was paid as an interim dividend during the year ended 30 June 2016? (1)

4.2. Why were no dividends declared at the end of the year, in spite of the fact that profits increased for the year ended 30 June 2016? (1)

5. Consider the shares that were repurchased on 25 June 2016.
5.1. Suggest TWO reasons why the directors might have decided to buy back some of the shares at the end of the year. (2)

-
-

5.2. Calculate the price at which each of these shares were bought back. (3)

45

My notes

5.3. IEB 2016 Paper 1 Question 3 Cash flow statements (50 marks; 30 minutes)

Information relating to Claxton Ltd:

1. Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 31 July 2016.

Loss on sale of equipment	R3 250
Depreciation for the year	R164 400
Interest on loan	R110 000
Income tax	R518 000
Net income before taxation	R1 223 000

2. Extract from the Statement of Financial Position (Balance Sheet) as at:

	31 July 2016	**31 July 2015**
Fixed assets	**7 332 850**	**5 170 000**
Land and buildings	6 100 000	4 220 000
Equipment at carrying value	1 232 850	950 000
Equity	**5 865 750**	**5 690 000**
Share capital	?	4 655 000
Retained income	?	1 035 000
Long-term liabilities	**987 250**	**900 000**
Mortgage loan: RFS Financial Bank (12% p.a.)	987 250	900 000

3. Extract from the notes to the Financial Statements as at 31 July 2016

Note 5: Trade and other receivables

	31 July 2016	**31 July 2015**
SARS – income tax	R22 700	?

Note 6: Cash and cash equivalents

	31 July 2016	**31 July 2015**
Bank	R12 500	?
Petty cash	R2 000	R1 500

Note 7: Trade and other payables

	31 July 2016	**31 July 2015**
SARS – income tax		?
Shareholders for dividends	R113 000	R162 000
Bank		?

4. Additional information:

4.1. The **total** dividends paid and declared for the year amounted to R338 000.

4.2. The cash flow statement on 31 July 2016 reflected taxation paid of R557 050.

4.3. The business bought new equipment during the year.

4.4. They also disposed of obsolete equipment on 31 March 2016. The following information relating to the disposal of this equipment was taken from the tangible asset register:

Cost price of equipment	R180 000
Accumulated depreciation (1 August 2015)	R87 500

Depreciation was calculated at 15% p.a. on the diminishing balance method.

4.5. The business built an additional warehouse during the year.

4.6. Claxton Ltd had 931 000 ordinary shares in issue on 1 August 2015.

4.7. On 1 August 2015, Claxton Ltd decided to repurchase 50 000 ordinary shares from a shareholder at R5,50 per share. The weighted average price per share on this date was R5.

4.8. During the financial year ended 31 July 2016, they issued further shares to the public at a price of R5,55 per share.

4.9. Claxton Ltd took out a new loan of R218 000 during the year. Interest is capitalised and loan repayments (including interest for the year) were made during the year.

4.10. The **net change in cash and cash equivalents for the year ended 31 July** was R119 000 (positive).

Required:

1. Calculate the **dividends paid** as they would have appeared in the Statement of Cash Flows on 31 July 2016. (4)

Dividends paid	

2. Calculate the opening balance of the SARS income tax account on 1 August 2015. State whether this amount would reflect a tax asset or tax liability. (5)

3. Calculate the book value of the obsolete equipment. (6)

4. How much did Claxton Ltd pay for the new equipment? (5)

5. Complete the cash flow from **financing activities** as it would have appeared in the Statement of Cash Flows on 31 July 2016. (9)

Cash flow from financing activities	**145 250**
Repurchase of shares	
Proceeds of new shares	
Proceeds of new loans	
Repayment of existing loans	

6. Complete the Cash and Cash Equivalents note as it would have appeared in the Statement of Cash Flows on 31 July 2016. (5)

	Net change	**31 July 2016**	**31 July 2015**
Bank		12 500	
Petty cash	500	2 000	1 500

7. Calculate the balance on the retained income account on 31 July 2016. (6)

R1 035 000

(Please turn over)

8. Claxton Ltd is very interested in buying a small but profitable business in Australia for R3 million. The directors are concerned about the economic situation in South Africa, in particular the increasing cost of finance and instability of the exchange rate. The bank has approved the finance for the purchase at an interest rae of 13,25%.

8.1. Calculate the return on total capital employed (ROTCE) on 31 July 2016. Use average capital employed in your calculation. (5)

8.2. If Claxton Ltd decided to go ahead and take the R3 million finance, its debt to equity ratio will increase from 0,21 : 1 (present value) to 0,9 : 1. With reference to risk and gearing and any other concerns you think are important, advise whether or not Claxton Ltd should proceed with the purchase of the business. (5)

50

My notes

5.4. IEB 2017 Paper 1 Question 3 Cash flow statements (62 marks; 37 minutes)

Information relating to Ingiva Limited:

1. Extract from the Statement of Comprehensive Income for the year ended 31 December 2017:

Income tax	R494 830

2. Extract from the Statement of Financial Position as at 31 December:

	2017 **R**	**2016** **R**
Tangible assets		
Fixed assets	?	?
Financial assets		
Shares in C2C Limited	2 175 000	1 800 000
Current assets	**2 942 390**	**1 515 000**
Inventory	1 463 550	517 500
Trade and other receivables	628 500	944 400
SARS – income tax	0	26 100
Cash and cash equivalents	850 340	27 000
Shareholders' equity	**8 952 170**	**6 227 500**
Share capital	8 103 000	6 100 000
Retained income	849 170	127 500
Non-current liabilities		
Mortgage loan	2 692 500	600 000
Current liabilities		
Creditors control	656 700	247 500
Expenses accrued (advertising)	13 050	7 500
SARS – income tax	53 550	0
Shareholders for dividends	157 500	412 500
Bank overdraft	0	165 000

3. Additional information

3.1. The net profit before tax, pus the addition of depreciation and interest is R1 962 010.

3.2. Machinery

3.2.1. A laminating machine was sold for cash on 30 June 2017 at its carrying value. The accumulated depreciation on this machine on 1 January 2017 was R57 600.

3.2.2. The replacement machine was purchased on 1 September 2017.

3.2.3. Depreciation on machinery is calculated at 20% p.a. on the diminishing balance method.

3.3. Mortgage loan

3.3.1. The following loan statement was received from First International Bank:

	R
Balance on 1 January 2017	600 000
Interest capitalised	63 000
Repayments including interest	?
New loan	?
Balance on 31 December 2017	2 692 500

3.3.2. Monthly loan repayments including interest of R10 250 were made during the year.

3.4. Dividends

The directors paid an interim dividend of R173 250 during the year.

3.5. Share capital

3.5.1. 1 525 000 ordinary shares were in issue at the beginning of the year.

3.5.2. On 1 January 2017 a further 475 000 orinary shares were issued at R4,50 each.

3.5.3. After performing the relevant solvency and liquidity tests the directors repurchased ordinary shares on 31 December 2017 at their weighted average price per share.

Required: (All workings details need to be shown as part marks will be allocated to them.)

1. Complete the Tangible Assets note as it would have appeared in the Statement of Financial Position as at 31 December 2017: (18)

Note 3: Tangible assets	Plant and property	Vehicles	Machinery
Carrying value on 1 January 2017	3 000 000	700 000	645 000
Cost	3 000 000	1 750 000	1 350 000
Accumulated depreciation	-	(1 050 000)	(705 000)
Movements			
Additions at cost	?	450 000	225 000
Disposals at carrying value	-	0	?
Depreciation	-	(220 000)	?
Carrying value on 31 December 2017	5 850 000	930 000	Do not calculate
Cost	5 850 000	2 200 000	1 395 000
Accumulated depreciation	-	(1 270 000)	?

Calculation for depreciation
Calculation for asset disposal

2. Calculate the **Cash generated from operations** as it would appear in the reconciliation of profit before taxation and cash generated from operations on 31 December 2017. (12)

3. Complete the Cash Flow Statement of Ingevela Limited for the year ended 31 December 2017. **Show all working detail in brackets**. (32)

Ingevela Limited - Cash Flow Statement for the year ended 31 December 2017

Cash flows from operating activities	Do not calculate
Cash generated from operations	
Interest paid	
Dividends paid	
Taxation paid	
Cash flows from investing activities	Do not calculate
Purchase of non-current assets	
Proceeds from the sale of non-current assets	
Cash flows from financing activities	Do not calculate
Proceeds of share capital	
Repurchase of shares	
Proceeds of new loans	
Repayment of capital portion of loan	
Net change in cash and cash equivalents	
Cash and cash equivalents at the beginning of the year	
Cash and cash equivalents at the end of the year	

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5.5. IEB 2018 Paper 1 Question 3 Cash flow statement (43 marks; 26 minutes)

Stubar Ltd is a company selling borehole equipment to areas seriously affected by drought in South Africa. Their financial year ends on 30 September 2018.

Information:

1. **Extracts from the financial statements of Stubar Ltd.**

	30 September 2018	30 September 2017
Ordinary share capital	R (? Shares)	R456 000 (120 000 shares)
Net profit after tax	648 000	324 000
Inventory	310 000	345 000
Depreciation	?	23 988

1.1. **Shares and dividends**:

- Stubar Ltd has an authorised share capital of 300 000 chares.
- On 1 December 2017 Stubar Ltd issued 10% of their authorised shres and received R174 000.
- On 20 July 2018, Stubar Ltd realised that their profit before tax had doubled due to the drought in the Western Cape. With this in mind, they repurchased 20 000 shares at R3,30 above the average share price.
- The company paid an interim dividend of 7 cents per share on 31 March 2018.
- A final dividend of 12 cents per share was recommended, but not yet paid.

1.2. **Taxation**:

- Provisional tax of R115 000 was paid on 31 March 2018 and another amount was paid on 30 September 2018. Tax is calculated at 28% on net profit.

2. **Mortgage loan agreement**

	30 September 2018	30 September 2017
Loan: KB Bank	500 000	234 000
Monthly repayments including interest	4 166	4 166
Monthly repayments excluding interest	2 000	2 000
KB Bank agreed to increase the loan on 1 October 2017. Interest is capitalised and all monthly payments have been recorded and received.		

3. **Trade and other receivables and payables**

	30 September 2018	30 September 2017
Debtors control	117 500	45 000
Creditors control	107 000	91 000
Accrued income (commission)	-	5 250
Accrued expenses (rates)	4 840	3 225
Income received in advance (rent)	3 333	2 555
Prepaid expenses (insurance)	6 280	3 140
SARS (income tax)	23 584 (dr)	146 792 (cr)
Shareholders for dividends	?	6 000

Required:

1. Complete the Reconciliation Note between profit before taxation and cash generated from operations for the year of the Cash Flow Statement for the year ended 30 September 2018. You may use the calculation blocks below the Reconciliation Note to do your workings, but your final answer must be written in the Reconciliation note. (15)

1. Reconciliation between profit before taxation and cash generated from operations

Profit before tax	
Adjustment in respect of:	
Depreciation	
Operating profit before changes in working capital	950 000
Changes in working capital:	
Cash generated from operations	

Calculations (7)

Calculate trade and other receivables	Calculate trade and other payables

2. Calculate the following amounts.

2.1. Dividends paid (5)

Workings
Amount paid

2.2. Tax paid (6)

Workings
Amount paid

3. Complete the Cash Flows from Financing Activities section of the Cash Flow Statement for the year ended 30 September 2018. (10)

Cash flows from financing activities	Do not calculate
Repayment of loan	
Proceeds from issue of shares	

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6. Analysis of companies

Analysis of financial statements

The whole point of keeping records of business transactions is to provide useful information to management. The process of recording these transactions and summarising them into financial statements must be followed up by analysis and interpretation, to identify possible problems, causes and solutions, i.e. provide useful information for management decision making.

In an exam

- You will usually be asked to calculate and comment on certain aspects of given financial statements, possibly for consecutive periods. You will need to have a good understanding of what the financial statements and different calculations actually mean in order to comment properly. Your comment can also include comparisons with similar businesses, previous years, etc.
- You could also be given certain ratios, and then be required to work these backwards to calculate missing figures. For example, if you know the value of current assets and are given the current ratio, you can determine current liabilities.

Analysis of income and expenses

Financial indicator	Formula	Compare to	What it means
Percentage gross profit on sales (gross profit margin)	$\frac{gross\ profit}{sales} \times 100 = \%$	Previous years, intended gross profit margin	Portion of sales earned as gross profit, available to cover operating expenses and net profit
Percentage gross profit on cost of sales	$\frac{gross\ profit}{cost\ of\ sales} \times 100 = \%$	Intended mark-up on cost.	This is the actual mark-up achieved. A difference from intended mark-up could indicate stock loss due to theft (if periodic inventory is used), or trade or other discounts given, incorrect mark-up calculations etc.
Operating profit percentage on sales	$\frac{operating\ profit}{sales} \times 100 = \%$	Previous years, net profit	Portion of sales earned as operating profit, before interest.
Net profit percentage on sales (profit margin)	$\frac{profit\ before\ tax}{sales} \times 100 = \%$	Previous years, Operating profit	Portion of sales earned as net profit, after interest
Operating expenses as a percentage of sales	$\frac{operating\ expenses}{sales} \times 100 = \%$	Previous years, gross profit margin	Portion of sales used to cover operating expenses.

Liquidity

Financial indicator	Formula	Compare to	What it means
Current ratio	*current assets : current liabilities*	2 : 1 would generally be considered safe	How easily debts are able to be paid (from cash, debtors and stock) as they become due
Acid test ratio	*(current assets – inventory) : current liabilities* Use ONLY trading inventory (i.e. exclude consumable stores on hand)!	1 : 1 would be considered safe	Stock is excluded as it is not always easy to sell. This shows how easily debts can be paid without selling stock.
Rate of stock turnover	$\frac{\text{cost of sales}}{\text{average trading inventory}} = \text{no. of times}$	How long it takes the stock to perish or become outdated	How long stock sits on the shelf i.e. how long it takes to sell. This period should obviously be less than the time taken to perish or become outdated.
Stock turnover period in days	$\frac{\text{average trading inventory}}{\text{cost of sales}} \times 365 = \text{no. of days}$		
Average debtors' collection period	Use ONLY trade debtors. $\frac{\text{average trade debtors}}{\text{credit sales}} \times 365 = \text{no. of days}$ If credit sales is not available, use the total sales figure.	Debtors' payment terms of business, normal terms of 30 days, or industry norm e.g. retail clothing 6 to 12 months	How long debtors actually take to pay. This should be less than terms of business or industry norm.
Average creditors' payment period	$\frac{\text{average trade creditors}}{\text{credit purchases}} \times 365 = \text{no. of days}$ Remember to only use trade If credit purchases is not given, use the cost of sales.	Business's crediotrs' terms, usually 30 to 60 days, but may be more.	Terms should be less than those prescribed by suppliers to avoid interest charges. Dif discounts are offered, payment should be made in these shorter terms to take advantage of these.

In calculating these time periods, the same basic calculation is used for each:

$$\frac{\textbf{Statement of Financial (average stock, debtors or creditors)}}{\textbf{Statement of Income amount}} \times 12\text{ (months) OR } 365\text{ (days)}$$

(cost of sales, credit sales or credit purchases / COS)

If you can shorten stock and debtors' periods to less than the creditors' payment period, no working capital will be needed, improving cash flow / liquidity!

Solvency and gearing

Financial indicator	Formula	Compare to	What it means
Solvency ratio	$total\ assets\ :\ total\ liabilities$	Less than 1 : 1 means insolvency (bankruptcy) 2 : 1 is usually considered safe	Whether or not the business is solvent, and the risk of **bankruptcy**. The higher the ratio, the safer the business.
Debt-equity (gearing)	$non\text{-}current\ liabilities\ :\ owners'\ equity$	1 : 1 would be considered safe	The amount of borrowed money compared to the owners' investment. A low ratio indicates that the business is **lowly geared**, meaning banks would see the business as **creditworthy** and would grant a loan..
Return on capital employed	$\dfrac{profit\ before\ interest\ on\ loan}{average\,(equity\ and\ non\ current\ liabilities)} \times 100 = \%$	Interest on loans, or prime interest rate	A return higher than the interest rate means the business is **positively geared**, and a loan is **profitable**.

Analysis of companies

For a company, calculations such as earnings or dividends per share can be simply calculated, and these two figures are often compared to see how much of the profit is being retained by the company for future growth. Net asset value per share is basically what each share is worth, according to the company's assets, and is calculated using shareholders' equity (net assets = assets – liabilities = owners' equity). This figure may be different to the market value of the share, due to investor expectations at that time, e.g. confidence in future profits.

SUGGESTION: When trying to study this section, find some actual financial statements (public companies have to publish abridged statements, and these can often be found in the business section of a newspaper), then analyse these using the calculations you have learnt. You can then also look up the actual share price, read relevant articles which may be published at the same time and from this you will find that you have a good understanding of the business, and may also discover some interesting things! This will also help you to gain a more practical understanding of this section, which will definitely help you when faced with an exam question.

Returns

Financial indicator	Formula	Compare to	What it means
Return on owners' equity (ROE)	$\dfrac{net\ profit\ after\ tax}{average\ \ shareholders'\ equity} \times 100 = \%$	Return on other investments e.g. interest on fixed deposit	What owners are earning from the business, and whether they will be happy with this.
Earnings per share (EPS)	$\dfrac{net\ profit\ after\ tax}{no.shares\ in\ issue} = c\ per\ share$	Previous years' EPS, Current DPS	Amount earned per share and amount actually declared as dividends. Difference between EPS and DPS is the portion of profits kept in the business for expansion.
Dividends per share (DPS)	$\dfrac{dividends\ for\ the\ year}{no.of\ shares\ in\ issue} = c\ per\ share$	Previous year's DPS, current EPS	
Net asset value per share (NAV)	$\dfrac{shareholders'\,equity}{no.of\ shares\ in\ issue} = c\ per\ share$	Market value of shares (on JSE)	Shareholder confidence – if market value is higher, shares are overvalued / investors expect good profits
		Issue price of shares	Increase as a result of profits made and retained in the business, or new shares issued at a premium

My mistakes