

QUESTION 2 (13 MARKS)

(a) **Additional working capital requirement to support the increased sales budget for 2015:**

Communication and Layout

(1)

Trade receivables (debtors)

Closing balance 2X14:	89 669 000		
2X14 Credit sales: $908\,191\,000 \times 65\%$	590 324 150		(1)
Ratio - debtors to credit sales: $89\,669\,000 / 590\,324\,150$	15,2%		(1)
2X15 New credit sales: $1\,089\,829\,000 \times 55\%$	599 405 950		(1)
Increase in debtors: $(599\,405\,950 - 89\,669\,000) \times 15,2\%$ ✓		1 380 434	(1)P

Inventory

Ratio - inventory to sales: $214\,000\,000 / 908\,191\,000$	23,6%		(1)
Increase in inventory: $(1\,089\,829\,000 - 214\,000\,000) \times 23,6\%$ ✓		42 866 568	(1)P

Cash

Ratio - profit to sales: $96\,432\,000 / 908\,191\,000$	10,6%		(1)
Profit retained 50%			(1)
Increase in cash: $(1\,089\,829\,000 - 96\,432\,000) \times 50\%$ ✓	10,6%	(9 626 814)	(1)P

Trade payables (creditors)

Ratio – creditors to sales: $185\,269\,000 / 908\,191\,000$	20,4%		(1)
Increase in creditors: $(1\,089\,829\,000 - 185\,269\,000) \times 20,4\%$ ✓		(37 054 152)	(1)P
Additional net working capital required for 2X15		(2 433 964)	(1)

Available (12)
Maximum (10)

QUESTION 2 (continued)

- (b) The reason why a company will adopt a more aggressive working capital management policy is to invest surplus funds and reduce its financing costs. A few examples of how this can be achieved are:

Trade Debtors/receivables

- The company **collects its debt from trade debtors quickly**. Therefore, the debtors' collection period is very important and needs to be monitored closely and kept to a minimum.
(1)
- **Debtor holdings:** Implement better credit control measures. **Offer discounts** for early payments
(1)

Inventory

- Inventory **levels are kept to a low** in order to save on holding costs. The company will implement a Just in Time (JIT) system.
(1)
- **Sale of obsolete stock** at the end of each season
(1)

Trade Creditors/Trade payables

- Payments to **trade creditors are delayed** to the maximum – but without incurring interest penalties.
(1)

By following these above principles, the company will have more cash on hand.

Maximum (3)
Total (13)

