Pumice Co plans to expand its business operations by opening several new outlets at a cost of $8m, financed by an issue of load notes.

The company currently generates credit sales of $80.768m before cost of sales $27.700m. All sales are on credit. The current statement of financial position of Pumice Co is as follows:

	$'000
Assets	
Non-current assets	54,070
Current assets	
Inventories	4,000
Trade receivables	12,320
Cash and cash equivalents	800
	17,120
Total assets	**71,190**

	$'000
Equity and liabilities	
Equity	6,000
Reserves	34,000
Total equity	40,000
Non-current liabilities	18,000
Current liabilities	
Trade payables	9,690
Overdraft	3,500
	13,190
Total equity and liabilities	**71,190**

Pumice Co expects that the expansion will increase credit sales by 18.7%, with cost of sales being 33% of credit sales and profit after tax being $6.818m. Non-current assets will increase by 11%.

The bank has demanded that Pumice Co's overdraft be reduced to $3m and the company expects its cash balance to be $700,000 after the expansion.

Pumice Co has been receiving complaints from its suppliers about late payment and the company plans to improve its working capital management as of the expansion: it expects that the following working capital ratios will result:

Inventory holding period	50 days
Trade receivables payment	60 days
Trade payables payment period	60 days

The finance director of Pumice Co wishes to investigate how the expansion will change the following ratios:

(i) trade payables payment period;
(ii) current ratio; and
(iii) revenue/net working capital ratio (defining net working capital as inventory plus trade receivables less trade payables).

Assume that there are 360 days in a year.

Using the information provided:
(a)
(i) Prepare a forecast statement of financial for Pumice Co; and (6 marks)

(ii) Calculate the effect of the proposed expansion on the working capital ratios listed by the finance director. (4 marks)