 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY MARKING GUIDELINES**

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| **SUBJECT** | **ACCOUNTING** | **GRADE** | 11 | **DATE** | 19 May –2020 |
| **TOPIC** | **Analysis and interpretation of financial statements** | **Term 2** | | | |

**ACTIVITY 2 RATIO & INTERPRETATION MEMO**

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| **1** | **Gross profit on sales** |
| **2** | **Gross profit on cost of sales** |
| **3** | **Net profit on sales** |
| **4** | **Operating profit on sales** |
| **5** | **Operating expenses on sales** |
| **6** | **Solvency ratio**  1 059 400: (300 000 + 59 400)  1 059 400: 359 400  2.95:1  Solvency ratio has improved (2.95:1 from 2.04:1). For every R1 of outside funding, the firm has 2.95 of its own funds. Total assets exceed total liabilities. The firm is technically solvent. |
| **7** | **Current ratio**  336 400: 59 400  5.66:1  Improved from 2.84:1 to 5.66:1. For every R1 owing the firm has R5.66 available. The liquid position is satisfactory because the firm will have enough liquid funds to meet its commitments in the short term. |
| **8** | **Acid test ratio**  336 400 – 220 000: 59 400  116 400: 59 400  1.96:1  Improved from 0.92:1 to 1.96:1. The liquid position is satisfactory because the firm will have enough funds to meet its commitments in the short term even if stock does not sell fast enough. |
| **9** | **Stock turnover rate**  = 4.13 times  Stock turnover rate has declined 4.13 from 5.66 times a year. Cash is being tied up in stock for longer period and there will be need for more storage space. Other administration expenses will be incurred. |
| **10** | **Stock holding period**  Stock holding period has deteriorated from 64.5 days to 88.47 days. Pressure is placed on the firm’s cash resources. |
| **11** | **Average debtors’ collection period**    Debtors collection has improved from 42 days to 30 days. This favours liquidity because cash is tied up with debtors for a shorter period and the risk of bad debts is decreased. |
| **12** | **Average creditors payment period**  Creditors payment period has deteriorated from 40 days to 32 days. More pressure on cash resources because money is paid quicker than last year. |