 Province of the

EASTERN CAPE

EDUCATION

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

**HOME SCHOOLING SELF-STUDY**

**NOTES AND ACTIVITIES**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **SUBJECT** | ACCOUNTING | | **GRADE** | | 10 | **DATE** |  | | | |
| **TOPIC** | BALANCE SHEET ,NOTES AND RATIOS | | | | | | **Term** | 2 | **Week** | 9 |
| **TIME ALLOCATION** | | 1 Week | | |  |  | | --- | --- | | **TIPS TO KEEP HEALTHY** | | |  |  | | 1. | **WASH YOUR HANDS** thoroughly with soap and water for at least 20 seconds. Alternatively, use hand sanitizer with an alcohol content of at least 60%. | |  |  | | 2. | **PRACTICE SOCIAL DISTANCING** – keep a distance of 1m away from other people. | |  |  | | 3. | **PRACTISE GOOD RESPIRATORY HYGIENE**: cough or sneeze into your elbow or tissue and dispose of the tissue immediately after use. | |  |  | | 4. | **WEAR A MASK AND TRY NOT TO TOUCH YOUR FACE.** The virus can be transferred from your hands to your nose, mouth and eyes. It can then enter your body and make you sick. | |  |  | | 5. | **STAY AT HOME.** | | | | | | | |
| **INSTRUCTIONS** | See requirements per activity | | |
| **RESOURCES** | **USE YOUR TEXTBOOK(S) & PREVIOUS ACTIVITIES** | | | | | | | | | |

Activity 1

Instruction:

Use the information given to prepare the Balance Sheet of Willows Traders as at 28 February 2020. The relevant notes to the Balance Sheet must be completed.

Information:

Post-Closing Trial Balance as at 28 February 2020

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet accounts section** | **Fol** | **Debits** | **Credits** |
| Capital |  |  | 230 000 |
| Drawings |  | 24 700 |  |
| Mortgage loan: TT Bank |  |  | 200 000 |
| Land and buildings at cost |  | 2 72000 |  |
| Shop and office equipment at cost |  | 26 940 |  |
| Vehicles at cost |  | 158 900 |  |
| Accumulated depreciation on shop and office equipment |  |  | 3 000 |
| Accumulated depreciation on vehicles |  |  | 23 500 |
| Fixed deposit: AA Bank |  | 12 180 |  |
| Trading stock |  | 32 240 |  |
| Debtors control |  | 19 080 |  |
| Deposit for electricity |  | 510 |  |
| Bank |  |  | 4500 |
| Petty cash |  | 950 |  |
| Cash float |  | 1 380 |  |
| Creditors control |  |  | 41000 |
| Accrued income |  | 1 450 |  |
| Accrued expense |  |  | 1200 |
| Prepaid expense |  | 3 70 |  |
| Income received in advance/deferred income |  |  | 1 000 |
| Savings account at AA Bank |  | 600 |  |
| Consumable store on hand |  | 500 |  |
| Pension fund |  |  | 2500 |
| Medical aid fund |  |  | 4 000 |
| Creditors for salaries |  |  | 15 100 |
| Profit and loss account(net profit) |  |  | 26 000 |
|  |  | **551 800** | **551 800** |

**Additional information:**

1. The owner, A Shai, increased his capital on 1 December 2019 by contributing an additional R26 060 in to the current banking account of the business. The entry has not been recorded.
2. The following transactions have already been recorded in the books of the business:

* A new computer, R3200 was purchased on 1 November 2019.
* A delivery vehicle, R64000, was bought on 1 January 2020
* Depreciation has been calculated as follows:

Shop equipment, R600

Vehicles, R3 024

1. The mortgage loan from TT Bank is repayable in instalments of R20 000 on October each year.
2. The fixed deposit at AA Bank comprised of the following:

* R8 000 [maturity date 31 December 2020]
* R4000[maturity date 15 November 2021]

**ANSWER BOOK**

**Activity 1**

**Willows Traders**

**Balance sheet as at 28 February 2020**

|  |  |  |
| --- | --- | --- |
| **Assets** | Note |  |
| **Non-current assets** |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Current Assets** |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Total assets** |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Current liabilities** |  |  |
|  |  |  |
| **Total equity and liabilities** |  |  |

Willows Traders

Notes to the financial statement for the year ending 28 February 2020

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Fixed assets | Land and buildings | Shop  Equipment | Vehicles | Total |
| Cost |  |  |  |  |
| Accumulated depreciation |  |  |  |  |
| Carrying value on 28 February 2019 |  |  |  |  |
| Movements |  |  |  |  |
| Additions |  |  |  |  |
| Disposal at carrying value |  |  |  |  |
| Depreciation |  |  |  |  |
| Carrying value on 28 February 2020 |  |  |  |  |
| Cost |  |  |  |  |
| Accumulated depreciation on 28 February 2020 |  |  |  |  |
| **Inventory** | | |  | |
| Trading stock | | |  | |
| Consumables stores | | |  | |
|  | | |  | |

|  |  |
| --- | --- |
| **Trade and receivables** |  |
| Debtors control |  |
| Deposit for electricity |  |
| Accrued income |  |
| Prepaid expense |  |
|  |  |
| **Cash and cash equivalents** |  |
| Petty Cash |  |
| Cash Float |  |
| Savings account at TT Bank |  |
| Current portion of fixed deposit |  |
|  |  |
| **Owner’s equity** |  |
| Capital balance on 28 February 2019 | **204 000** |
| Additional capital contributed /capital withdrawn |  |
| Net profit for the year |  |
| Drawings |  |
| Capital balance on 28 February 2020 |  |
|  |  |
| **Trade and other payables** |  |
| Creditors control |  |
| Bank overdraft |  |
| Pension fund |  |
| Medical aid fund |  |
| Creditors for salaries |  |
| Current portion of loan |  |
| Accrued expense |  |
| Deferred income |  |

Activity 2

Instruction:

Use the information given to prepare the Balance Sheet of Navix Traders as at 28 February 2020. The relevant notes to the Balance Sheet must be completed.

Information:

Post-Closing Trial Balance as at 28 February 2020

|  |  |  |  |
| --- | --- | --- | --- |
| Balance Sheet accounts section | Fol | Debit | Credit |
| Capital |  |  | 800 000 |
| Loan from Monobank |  |  | 610 000 |
| Land and buildings |  | 1068 000 |  |
| Vehicles |  | 240 000 |  |
| Accumulated depreciation on vehicles |  |  | 123 000 |
| Equipment |  | 227 000 |  |
| Accumulated depreciation on equipment |  |  | 154 000 |
| Trading stock |  | 164 300 |  |
| Debtors control |  | 75 000 |  |
| Creditors control |  |  | 62 500 |
| Fixed deposit at Monobank(6%p.a.) |  | 80 500 |  |
| Bank |  | 31 300 |  |
| Cash float |  | 33 00 |  |
| Income receivable/accrued |  | 6500 |  |
| Deferred income/received in advance |  |  | 12 50 |
| Expenses prepaid |  | 750 |  |
| Consumable stores on hand |  | 1 7 50 |  |
| Expenses payable/accrued |  |  | 2 650 |
| Profit and loss account(net profit) |  |  | 145 000 |
|  |  | **1898 400** | **1898 400** |

Additional information

1. The capital balance was R799 500 on 1 March 2019. The owner increased his capital by R100 000 during the financial year. This has already been properly recorded.
2. R30 000 of the fixed deposit matures in the next financial year. The rest matures in 2022.
3. The loan is reduced by R5500 each month, so R66 000 will be repaid within the next financial year.
4. Drawings for the year: R240 000+R4500 =R244 500

**ANSWER BOOK**

**Activity 2**

**Navix Traders**

**Balance sheet as at 28 February 2020**

|  |  |  |
| --- | --- | --- |
| **Assets** | Note |  |
| **Non-current assets** |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Current Assets** |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Total assets** |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Current liabilities** |  |  |
|  |  |  |
| **Total equity and liabilities** |  |  |

Navix Traders

Notes to the financial statement for the year ending 28 February 2020

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Fixed assets | Land and buildings | Vehicles | Equipment | Total |
| Cost |  |  |  |  |
| Accumulated depreciation |  |  |  |  |
| Carrying value on 28 February 2019 |  |  |  |  |
| Movements |  |  |  |  |
| Additions |  |  |  |  |
| Depreciation |  | (30 000) | (23 200) |  |
| Carrying value on 28 February 2020 |  |  |  |  |
| Cost |  |  |  |  |
| Accumulated depreciation on 28 February 2020 |  |  |  |  |

|  |  |
| --- | --- |
| **Inventory** |  |
| Trading stock |  |
| Consumables stores on hand |  |
|  |  |

|  |  |
| --- | --- |
| **Trade and receivables** |  |
| Debtors control |  |
| Accrued income |  |
| Prepaid expense |  |
|  |  |
| **Cash and cash equivalents** |  |
| Bank |  |
| Cash Float |  |
| Current portion of fixed deposit |  |
|  |  |
| **Owner’s equity** |  |
| Capital balance on 28 February 2019 |  |
| Additional capital contributed /capital withdrawn |  |
| Net profit for the year |  |
| Drawings |  |
| Capital balance on 28 February 2020 |  |
|  |  |
| **Trade and other payables** |  |
| Creditors control |  |
| Current portion of loan |  |
| Accrued expense |  |
| Deferred income |  |

**ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS**

Financial statements consist of:

* An income Statement which indicates the net profit for the year;
* A Balance Sheet which reflects the financial position of a business at a specific date.

On completion of the financial statements, the owner is now in a position to analyse and interpret the results of his business activities. The results of his analysis are compared with those of the previous year and are used to determine future policies and business strategies. The financial statements enable him to determine the following: **profitability, liquidity, risk & market prospects and solvency:**

**THE VALUE OF ANALYSING STATEMENTS:**

**For the owner:**

1. The owner is able to determine the profitability of his business, i.e. he can see whether the capital he invested and risked is providing him with an adequate return.
2. He can determine the efficiency of the purchasing policy, stock control policy and sales policy.
3. He can establish whether operating expenses are within acceptable limits.
4. He is able to determine the liquidity of his business, i.e. its ability to pay off short- term debts.
5. He is in a position to compare the results of his business activities with those of the previous years and also with other similar businesses.

**Other persons/institutions:**

1. Banks and other financial institutions –for short and long term credit. An analysis of financial statements enables banks to determine the creditworthiness of the business and its ability to pay back loans / overdrafts.
2. Creditors/suppliers are concerned with liquidity- the ability to quickly convert current assets into cash to pay their short term debts.
3. The South African Revenue Services (SARS) uses and analyses statements to calculate taxable income.
4. Employees and trade unions use financial statements for wage negotiations (Unions/employees can see what percentage of profits are allocated to salaries) and also as an indicator for job security.

**RATIOS AND PERCENTAGES**

**PROFITABILITY**

The following calculations are used to determine the profitability of a business

* Percentage gross profit on turnover (net sales): Gross profit x 100

Sales 1

* Percentage gross profit on cost of sales: Gross profit x 100

(mark- up achieved) Cost of sales 1

* Percentage operating profit on sales: Operating profit x100

Sales 1

* Percentage operating expenses on sales: Operating expenses x100

Sales 1

* Percentage net profit on sales: Net profit x100

Sales 1

**Note:** Always us net sales figure, i.e. Sales minus Debtors allowances.

|  |
| --- |
| **Example:**  The information below relates to Ace Traders who use a mark-up of 100%  **Required:**  Calculate and comment on the following percentages. The percentages for previous year are supplied in brackets.  2019   1. Gross profit on turnover/sales [50%] 2. Gross profit on cost of sales [100%] 3. Operating profit on turnover/sales [18%] 4. Operating expense on turnover/sales [ 40%] 5. Net profit on turnover/sales [12%] |

**Information**

ACE TRADERS

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2020

|  |  |
| --- | --- |
| Sales  Cost of sales  **Gross profit**  **Other operating income**  Rent income  Discount received  **Gross operating income**  **Operating expenses**  Salaries and wages  Bad debts  Consumable stores  Advertising  Motor expenses  Maintenance repairs  Telephone  Water & electricity  Bank charges  Insurance  Discount allowed  Trading stock deficit  Depreciation  **Operating profit**  Interest income  **Profit before interest expense**  Interest expense  **Net profit for the year** | 250 000  (130 000) |
| **120 000**  **26 000** |
| 24 000  2000 |
| **146 000**  **(111 000)** |
| 69 000  31 00  4 000  2 200  4 000  3 500  4 700  3 800  4 500  4 500  5 00  2 00  7000 |
| **35 000**  5 00 |
| **35 500**  (9 600) |
| **25 900** |

**Solution**

Gross profit on turnover: 120 000 x 100 **=48%**

250 000 1

Gross profit on cost of sales: 120 000 x 100 **=92.3%**

130 000 1

operating profit on turnover/sales 35 000 x 100 **=14%**

250 000 1

Operating expenses on turnover/sales:111 000 x 100 **=44.4%**

250 000 1

Net profit on turnover/sales 25 900 x 100 **=10.4%**

250 000 1

**Comment**

**Note**: Alternative answers/ opinions are possible.

Gross profit on sales decreased by 2% in 2020. A percentage of 48% indicates that on a sale of R100 Ace’s gross profit is R48. R52(100-48) is the cost price. Gross profit is the amount earned on each sale before operating expenses and income have been considered.

In 2019 (the previous year), the target mark-up of 100% was achieved. In 2020 the target mark-up was not achieved (short by 7.7%). This needs to be investigated and corrective action must be taken. Possible causes for not achieving the target mark-up are:

* Excessive trade discounts
* Seasonal sales, specials
* Inaccurate mark-up calculations
* Inaccurate stock taking
* Incomplete/inaccurate record keeping etc.

Operating profit on turnover decreased by 4% in 2020. Expenses absorb 44.4% of the sales revenue resulting in a low operating profit percentage of 14. Operating expenses increased by 4.4%in 2020 resulting in a lower net profit on turnover of 10.4%.

The owner of Ace Traders may not be very pleased with the profitability of his business. The following suggestions may be put forward to him:

* Exercise better control over operating expenses
* Increase sales by offering incentives such as discounts, having promotional sale, price mark-downs, clearance sales etc.
* Pay off or reduce the loan debt. This will increase profits significantly.

Activity 3

The information for 2020 below relates to Peggie Stores who uses a mark-up of 50%

**Required:**

Calculate and comment on the following percentages. The percentages of the previous year are supplied in brackets.

2019

3.1 Gross profit turnover [29%]

3.2 Gross profit on cost of sales [40%]

3.3 Operating profit on turnover [10%]

3.4 Operating expenses on turnover [27%]

3.5 Net profit on turnover [8%]

**Information**

**PEGGIE STORES**

**INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2020**

|  |  |
| --- | --- |
| Sales  Cost of sales  **Gross profit**  **Other operating income**  Commission income  **Gross operating income**  **Operating expenses**  Wages  Bad debts  Consumable stores  Telephone  Sundry expenses  Water & electricity  Bank charges  Insurance  Depreciation  Operating profit  Interest income  Profit before interest expense  Interest expense  Net profit for the year | 184 000  (126 890) |
| **57 110**  **14 000** |
| 14000 |
| **71 110**  **(55 390)** |
| 2 4000  3 00  1 560  3 600  5 070  7 970  2 110  7 780  3 000 |
| 15 720  2 00 |
| 15 920  5 600 |
| 10 320 |

ANSWER BOOK

ACTIVITY 3

|  |  |
| --- | --- |
| 3.1 |  |
| 3.2 |  |
| 3.3 |  |
| 3.4 |  |
| 3.5 |  |

**RETURN ON OWNER’S EQUITY**

This calculation enables the owner to determine how profitable his investment in the business is. Ideally, his return should be higher than that obtainable from outside investment such as fixed deposits. It should be remembered that an investment in a fixed deposit entails no or very little risk. The investor earns the current rate of interest and he gets back the capital (the amount invested). Other investments such as shares on the stock exchange and unit trusts carry a higher risk factor. Negative growth in these investments may cause substantial losses for investors. The capital invested in a business does not carry guarantee. The owner bears the risk and he can lose entire investment if his business venture fails. The calculation is, therefore, important in determining if the owner should still remain in business.

The formula for this calculation is:

Net profit x 100

Average owner’s equity 1

**Note: Average owner’s equity = (Owner’s equity at beginning of year+ Owner’s equity at end of year) ÷2**

Net profit is the net earnings of the owner after all expenses have been deducted. Owner’s equity is increased by the net profit and additional capital contributions and is decreased by drawings. The net profit is only transferred to the capital amount at the end of the year, but net profit is earned consistently throughout the year from the first day to the last day of the accounting period. This is why the average owner’s equity is used in the calculation. The balance of owner’s equity on the last day of previous year or the first day of the current year is added to the balance of owner’s equity on the last day of the current year and then divided by two to get the average.

|  |
| --- |
| **Example:**  The following relate to the accounting records of Doidge Suppliers  **Required**:  Calculate and comment on the percentage return on owner’s equity. The return in the previous year was 30% |

**Information:**

**Doidge Suppliers**

**Extract from the notes to the financial statements for the year ended 30 June 2020**

**Owner’s equity:**

|  |  |
| --- | --- |
| Balance at the beginning of year | 300 000 |
| Net profit for the year | 120 000 |
| Additional capital contributions | 50 000 |
| Drawings | (96 000) |
| Balance at end of year | 374 000 |

**Solution:**

120 000 x 100

(300 000+374 000) ÷2 1

120 000 x 100

337 000 1

=35.6%

OR

120 000 x100

½ (300 000+374 000) 1

=35.6%

Comment:

Return on owner’s equity has improved by 5.6% as compared to previous year. 35.6% implies that on an investment of R100 the owner is earning R35.60. A comparison should also be made with the current bank rate or the return available on alternative investments. (Note: The return on alternative investments does not stay constant but varies over time and also between different institutions and investments.)

This return is most likely higher than present rates of return on alternative investments. The extra capital put in (R50 000) has probably generated better profits. The owner should be pleased with the performance of his business.

**Activity 4**

**THE FOLLOWING NOTE TO THE FINANCIAL STATEMENTS WAS EXTRACTED FROM THE FINANCIAL STATEMENTS OF LARAH STORES AS AT 28 FEBRUARY 2020**

**Information:**

**OWNER’S EQUITY**

|  |  |
| --- | --- |
| Balance at beginning of year | 180 000 |
| Net profit for the year | 20 000 |
| Additional capital contribution | 0 |
| Drawings | (10 000) |
| Balance at end of year | **190 000** |

Required:

4.1 Calculate and comment on the percentage return on owner’s equity. The return in the

previous year was 14%

Answer Book

|  |  |
| --- | --- |
| 4.1 |  |

**LIQUIDITY RATIOS**

Liquidity deals with the ability of a business to meet its short term obligations (i.e. current liabilities)

* **Current ratio**

This ratio is a comparison between the current assets and current liabilities. Current assets should be higher than current liabilities. One should always have more than what one owes. The ratio should not be too high, as this means that excess funds might be tied up in stock and trade and other receivables that do not earn a return, or in cash which should rather be invested where a higher return will be earned. The formula for this ratio is:

Current assets: current liabilities

**Note:**

Current assets consist of: inventory; trade and other receivables; Cash and cash equivalents

Current liabilities consist of: trade and other payables; Bank overdraft

|  |
| --- |
| **Example:**  **Information**:  Current assets R36 000  Current liabilities R12 000  **Required**  Calculate and comment on the current ratio. Current ratio for previous year was 1:1 |

**Solution:**

36 000 : 12 000

12 000 12 000

= 3:1

Comment:

The ratio has increased as compared to previous year. A ratio 3:1 means that for every R1 owing on the short- term the business has R3. Should the R1 be paid off, the business would still have R2 available. Since the current assets are three times higher than current liabilities this business should not experience liquidity problems. However, they must guard against going too high.

* **Acid test (quick) ratio**

This ratio tests the ability of a business to meet its current liabilities under abnormal condition, e.g. when a business is experiencing a severe decline in sales, economic depression, etc. the current ratio **includes trading stock**, the acid test ratio **excludes trading stock.** For a business to quickly pay off its debts, it would have to sell its stock first. selling stock under pressure can result in huge losses. Stocks may have to be sold below cost. The acid test ratio

tests the liquidity of a business without being compelled to sell its stock. Only trade and other receivables and cash are considered in this calculation. These two current assets are ‘quick’ assets. The formula for the acid test ratio is stated as follows:

Current Assets-Trading stock (Inventory): Current liabilities

OR Trade and other receivables +Cash : Current liabilities

|  |
| --- |
| **Example**:  **Information**:  Current assets R36 000  Trading inventory R20 000  Current liabilities R12 000  Required:  Calculate and comment on the acid test ratio. The acid test ratio for previous year was 1.23:1 |

Solution

(36 000-20 000): 12 000

16 000 : 12 000

12 000 : 12 000

= 1.33 : 1

Comment:

Compare the ratio of the previous year with that of current year. The ratio has increased as compared to previous year. A ratio of 1.33:1 means that without having to sell its stock the business has R1.33 available for every R1 owing on the short term. This ratio is adequate. The business should not experience liquidity problems. A ratio of less than one implies that the business is probably carrying excess stocks ties up working capital, exposure to damage; theft; obsolescence etc. Working capital is the difference between current assets and current liabilities. This consists of stock, cash and the funds used to finance stock that has been bought by customers who have not yet paid (debtors). Purchase on credit and bank overdraft decrease working capital.

**Activity 5**

**ITEMS EXTRACTED FROM THE BALANCE SHEET OF JJ STATIONERS AS AT 30 JUNE 2020**

|  |  |
| --- | --- |
| Tangible /fixed assets | 1 673000 |
| Current assets | 89 500 |
| Owner equity | 1727 500 |
| Non- current liabilities | 10 000 |
| Current liabilities | 25000 |

**Note**: Current assets includes trading stock valued at R 76 000

**Financial indicators for the year ended 30 June 2019:**

Current ratio : 2:1

Acid test ratio : 1.1:1

**Required:**

Calculate and comment on the following ratios for the year ended 30 June 2020

5.1 Current ratio

5.2 Acid test ratio

|  |  |
| --- | --- |
| 5.1 |  |
| 5.2 |  |

**SOLVENCY RATIO**

This ratio determines the ability of a business to meet its liabilities. A business is solvent when total assets exceeds total liabilities (owns more than what it owes). A business is insolvent when liabilities are higher than assets (owes more than what it has). The amount by which assets exceed total liabilities is in fact the owner’s equity (Owner’s equity =Assets-Liabilities). The solvency ratio is calculated as follows:

Total assets : Total liabilities

**Note:**

Ratios must be expressed in its simplest form; i.e. total assets are divided by total liabilities. Total liabilities should always be stated as 1

|  |
| --- |
| Example:  The balance sheet below was extracted from the books of Avanti Stores.  Required:  Calculate and comment on the solvency ratio. Solvency ratio in the previous year was 3.2:1 |

**Information**

**AVANTI STORES**

**BALANCE SHEET AS AT 28 FEBRUARY 2020**

|  |  |
| --- | --- |
| **ASSETS**  **Non-current assets**  Fixed/Tangible assets  Financial assets: Fixed deposit  **Current assets**  Inventory  Trade and other receivables  Cash and cash equivalents  **Total assets**  **EQUITY AND LIABILITIES**  **Owner’s equity**  **Non-current liabilities**  Mortgage loan  **Current liabilities**  Trade and other payables  **Total equity and liabilities** | 300 000 |
| 250 000  50 000 |
| 47 000 |
| 25 000  17 000  5 000 |
| **347 000** |
| 272 000  40 000    35 000 |
| **347 000** |

**Solution**

Total assets = 347 000

Total liabilities = 40 000+35000

= 75 000

Solvency ratio = 347 000 : 75 000

75 000 75000

= 4.6 : 1

* A ratio 4.6:1 is favourable. The business is solvent. The trader should not experience any solvency problems. For every R1 owing, it has R4.60 available. Should the business pay off its debts, there would be a surplus of R3.60.

Activity 6

The information below was extracted from the books of Redo Stores

Information:

Balances at year end 30 June 2020

|  |  |
| --- | --- |
| Fixed /Tangible assets | 320 000 |
| Current assets | 160 000 |
| Owner’s equity | 20 000 |
| Loan from DG Bank | 300 000 |
| Current liabilities | 160 000 |

Required:

6.1 Calculate and comment on the solvency ratio. The solvency ratio was 3:1 in the previous

year.

Answer book

|  |  |
| --- | --- |
| 6.1 |  |

Activity 7

Consider the following extracts of financial statements of Bella Traders, for financial period 1 March 2019 to 28 February 2020, to calculate and comment on the following:

NB: Comparative figures for 2019 are provided in brackets. All goods are sold at a mark-up of 50% on cost.

1. Gross profit on sales (35%)
2. Gross profit on cost of sales (47%)
3. Net profit on sales (12%)
4. Operating profit on sales (14%)
5. Operating expenses on sales (18%)
6. Return on equity
7. Solvency ratio (3.5:1)
8. Current ratio (1.8:1)
9. Acid test ratio (1.5:1)

**Information:**

Extract of Income Statement for year ended 28 February 2020

|  |  |
| --- | --- |
| Turnover (sales) | 760 000 |
| Cost of sales | 533 600 |
| Gross Profit | **226 400** |
| Operating expenses | 160 000 |
| Operating profit for year | 66 400 |
| Interest on loans | 6 000 |
| Net profit for year | 60 400 |

Extract of Balance Sheet as at 28 February 2020

|  |  |  |
| --- | --- | --- |
| **Tangible assets** |  | **240 000** |
| **Financial Assets** |  | **10 000** |
| Fixed Deposit: DD Bank 8 % |  | 10 000 |
| **Current assets** |  | **82 000** |
| Inventories |  | 43 000 |
| Trade and other receivables |  | 20 000 |
| Cash and cash equivalents |  | 9 000 |
| **Total assets** |  | **332 000** |
| **Owners’ equity** |  | **258 000** |
| Loan : DD Bank |  | 37 500 |
| Non-current liabilities |  | **37 500** |
| **Current liabilities** |  | **36 000** |
| Trade and other payables |  | 36 000 |
| **Total Equity and Liabilities** |  | **332 000** |

**NB:** Owner’s equity on 1 March 2019 was R200 000.

Answer book

Activity 7

|  |  |
| --- | --- |
| 7.1 |  |
| 7.2 |  |
| 7.3  7.4 |  |
| 7.5 |  |
| 7.7 |  |
| 7.8 |  |
| 7.9 |  |