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| Province of the  EASTERN CAPE  EDUCATION  **DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**  **HOME SCHOOLING SELF-STUDY**  **MARKING GUIDELINE**   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **SUBJECT** | ACCOUNTING | **GRADE** | 11 | **DATE** |  | | | | | **TOPIC** | Analysis and Interpretation of Financial statements: Revision of Grade 10 | | | | **Term** | 2 | **Week** | 5 | |

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| **WORKSHEET 1** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 5 | |

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| **ACTIVITY 1** | |  |  |  |  |
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| 1. **Calculate the following financial indicators** |
| * 1. **Gross profit on sales**   230 000 x 100  680 000 1  = 33.8% |
| **1.2 Gross profit on cost of sales**  230 000 x 100  450 000 1  = 51.1% |
| **1.3 Net profit on sales**  75 000 x 100  680 000 1    = 11% |
| * 1. **Operating expenses on turnover**   157 800 x 100  680 000 1  = 23.2% |
| **1.5 Return on owners’ equity (use average equity)**  75 000 x 100  ½ (200 000 + 300 000) 1  = 30% |
| **1.6 Current ratio**  ( 150 000 + 122 000 + 24 000 ) : 76 000  = 296 000 : 76 000  = 3.9 : 1 |
| **1.7 Acid test ratio**  ( 122 000 + 24 000) : 76 000  = 1.9 : 1 |

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| 1. **Comment on the mark-up percentage achieved. Bear in mind that the business aims at a mark-up of 60% on cost.** |
| * The target mark-up of 60% was not met – mark-up achieved is 51.1% * The business should consider rethinking the pricing policy, e.g increase the selling price. |

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| 1. **Comment on the percentage earned by the owner.** |
| * The owner should be satisfied with the return of 30% because it is higher than the return on alternative investments like fixed deposit which earn ± 6%. |

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| 1. **Comment on the current and acid-test ratios.** |
| * The business can easily be able to meet it’s short term obligations. * For each and every rand it has to pay there is R3.89 available with inventory included and R1.92 available without inventory. * The business can even consider investing available fund elsewhere where it’s going to be more profitable. |

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| 1. **What is the amount of the owner’s drawings for the year? Bear in mind that he contributed a car valued at R56 800 as additional capital.** |
| Balance at beginning of the year 200 000  Net profit 75 000  Additional Capital 56 800  331 800  Balance at end of the year (300 000)  Drawings 31 800 |

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| **WORKSHEET 2** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 5 | |

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| **ACTIVITY 2** | |  |  |  |  |
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| **2.1 Calculate the percentage mark-up obtained by the business.** |
| 350 000 X 100  500 000  = 70% |

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| **2.2 Provide TWO reasons for the difference in the mark-up percentages.**  **(See Information C)** |
| Any two   * Discounts were offered to bulk buyers. * Goods were discounted during clearance sales. * Mark-up could have been calculated incorrectly. |

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| **2.3 Calculate the percentage gross profit on sales.** |
| 350 000 X 100  850 000  = 41,2% |

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| **2.4 Calculate the percentage net profit on sales.** |
| 119 000 X 100  850 000  = 14% |

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| **2.5 List ONE reason for the decrease in percentage in your calculations in**  **Questions 2.3 and 2.4** |
| Operating expenses |

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| **2.6 Calculate the return on average owner’s equity.** |
| 119 000 X 100  (350 000 + 450 000) / 2  400 000  = 29,8% |

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| **2.7 Should the owner be satisfied with his percentage return?**  **Explain quoting financial indicators to support your answer.** |
| Yes   * Better than investments at banks. Banks offer a maximum of 8%. * Improvement in the return from 23% in 2019 to 29,8% in 2020. |

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| **2.8 Calculate the current ratio for 2020.** |
| 92 000 + 24 200 + 6 800 : 41 000  123 000 : 41 000  3 : 1 |

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| **2.9 Calculate the acid test ratio for 2020.** |
| 24 200 + 6 800 : 41 000  31 000 : 41 000  0,8 : 1 |

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| **2.10 Explain why trading stock is excluded in the calculation for the acid test**  **ratio.** |
| * Acid test ratio is calculated to determine the ability of the business to settle its short-term debts quickly. * Trading stock cannot be sold quickly in the short-term. Therefore, it is excluded. |

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| **WORKSHEET 3** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 5 | |

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| **ACTIVITY 3** | |  |  |  |  |
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| **3.1 Calculate the following financial indicators for the year ended**  **29 February 2020:** |
| * **Gross profit percentage on Cost of Sales**   846 000 X 100  1 554 000  = 54.4% |
| * **Return on Owner’s Equity**   318 380 X 100  ½ (604 000 + 665 200)  = 50.2% |
| * **Solvency ratio**   (300 000 + 400 000 + 648 400) : (460 000 + 259 200)  1 348 400 719 200  1.9 : 1 |
| * **Current ratio**   684 400 : 259 200    2.6: 1 |
| * **Acid-test ratio**   (648 400 – 518 400) : 259 200  130 000  0,5 : 1 |

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| **3.2 Is the degree of solvency of the business satisfactory? Explain quoting**  **figures.** |
| Yes  The solvency ratio increased from 1.6 : 1 to 1.9 : 1  This means that for every R1 owing in debts the business has assets to the value of R1.90.  The business will be able to meet its liabilities in case of insolvency. |

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| **3.3 Explain if the increase in the gross profit percentage was a good strategy.**  **Quote figures** |
| The gross profit percentage increased from 39.2% to 54.4%.  The sales increased from R1 860 000 to R2 400 000, which is an increase of 29%.  The gross profit increased from R420 000 to R846 000, which is an increase of 101% |

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| **3.4 Return on Owner’s Equity** |
| * **Comment on the return on Owner’s Equity**   It increased by 33.7% from 16.5% to 50.2%   * **The owner is offered a maximum return on Investment of 8% by his financial Institution. Advise him about the offer.**   Do not accept the offer  8% is very little as compared to 50.2% return on owners’ equity.  OR  Accept the offer  8% offered on investment os more than alternative investments |

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| **3.5 Should the owner be satisfied with the profitability of the business? Explain**  **by quoting TWO relevant financial indicators.** |
| Yes  % gross profit on sales increased from 32.6% to 55.3%  % operating profit on sales increased from 16.5% to 25.3%  % net profit on sales increased from 13.6% to 23.3% |

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| **3.6 Comment on the liquidity of the business by quoting TWO relevant financial**  **indicators.** |
| Current ratio decreased from 3.1 : 1 to 2.6 : 1  Acid test ratio decreased from 1.3 : 1 to 0.5 : 1  The business has too much stock on hand at the end of the period. |

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| **WORKSHEET 4** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 5 | |

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| **ACTIVITY 4** | |  |  |  |  |
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| **4.1 Calculate the balance of the Capital account on 30 June 2019. The owner**  **contributed an additional R300 000 towards his capital during the year.** |
| Opening balance 496 000  Additional contribution 300 000  Net profit 185 600  Drawings (118 400)  Closing balance 863 200 |

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| **4.2 Calculate the following financial indicators:** |
| * **Mark-up % achieved**   336 000  1 312 000 – 976 000 X 100  976 000  = 34.4% |
| * **% Net profit on turnover**   185 600 X 100  1 312 000  = 14.1% |
| * **Current ratio**   599 840 : 265 600  2.3 : 1 |
| * **Acid test ratio**   246 304  599 840 – 353 536 : 265 600  0.9 : 1 |

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| * **% Return on average owners’ equity earned**   185 600 X 100  ½ (496 000 + 863 200)  679 600    185 600 X 100  679 600  = 27.3% |

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| **4.3 Should the owner be satisfied with the mark-up % achieved?**  **Explain quoting figures.** |
| No  The owner did not achieve the targeted mark-up of 50%. They only achieved 34.4%. |

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| **4.4 In 2018 the owner earned 30% on his investment in this business.** |
| * **Provide one reason why the owner should be satisfied with the return he received on his investment in 2019.**   Even though the return on investment has declined from 30% in 2018 to 27.3% in 2019, it is still above the return on other investments like fixed deposit. |
| * **Provide one reason why the owner would not be satisfied with the return on his investment in 2019.**   The return declined from 30% in 2018 to 27.3% in 2019. |

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| **WORKSHEET 5** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 5 | |

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| **CLASS TEST** | |  |  |  |  |
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| 1.1.1 | Profitability ✓ |
| 1.1.2 | Return on investment ✓ |
| 1.1.3 | Solvency ✓ |
| 1.1.4 | Liquidity ✓ |

**1.2 Calculate the following ratios for 2020 and comment.**

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| **1.2.1 Current ratio** |
| 46 500✓ + 33 000 +✓ 2 500 ✓ : 26 000✓ + 24 000✓  82 000 50 000  1,6 : 1 **🗹** (one part correct, must be x : 1) |

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| **1.2.2 Acid test ratio** |
| 82 000 – 46 500✓ : 50 000✓  35 500  0,7 : 1**🗹** (one part correct, must be x : 1) |

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| **1.2.3 Compare these results with those of 2019 and comment on the liquidity of**  **the business** |
| Current ratio decreased from 2 : 1 to 1,6 : 1✓  Acid test ratio decreased from 1,5 : 1 to 0,7 : 1✓    The liquidity of the business is deteriorating and the business might find it difficult to pay short term liabilities ✓✓ |
| **1.2.4 Calculate the percentage return on average owner’s equity.** |
| 90 000 ✓ X 100  ½ ✓ (400 000✓+ (400 000 + 90 000 – 70 000) ✓)  420 000  = 21.4%✓**🗹** |

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| **1.2.5 Should the owner be satisfied with this return? Motivate your answer.** |
| Yes✓    The return is more than what other safe investments yield✓✓ |

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