 Province of the

EASTERN CAPE

EDUCATION

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

**HOME SCHOOLING SELF-STUDY**

**NOTES AND ACTIVITIES**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | ACCOUNTING | **GRADE** | 11 | **DATE** |  |
| **TOPIC** | Analysis and Interpretation of Financial statements: Revision of Grade 10 | **Term**  | 2 | **Week** | 5 |
| **TIME ALLOCATION** | 1 Week  |

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| **TIPS TO KEEP HEALTHY** |
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| 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.**  |

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| **INSTRUCTIONS** | See requirements per activity |
| **RESOURCES** | **USE YOUR TEXTBOOK(S) & PREVIOUS ACTIVITIES** |

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| **VERY IMPORTANT** |  |
|  |  |  |
| * Know how to calculate financial indicators (Formula’s)
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| * Know how to interpret financial indicators
 |  |
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| **CATEGORIES OF FINANCIAL INDICATORS** |  |
|  |  |  |
| **1.** | **PROFITABILITY**  |  |
|  | *How efficient is the business in its normal operating activities (how profitable is it and how well does it manage its expenses)* |  |
|  |  |  |
|  | Financial indicators:  |  |
|  | % Gross profit on sales  |  |
|  | % Net profit on sales |  |
|  | % Operating expenses on sales  |  |
|  | % Operating profit on sales  |  |
|  | % Gross profit on cost of sales (Mark-up)  |  |
|  |  |  |
|  | **Answers must be in % (percentage)** |  |
|  | **All figures come from income statement** |  |
|  |  |  |
|  |  |  |
| **2.** | **LIQUIDITY** |  |
|  | *The ability of a business to pay off its short-term or immediate debt without any problems. It indicates if the business has handled its working capital effectively.* |  |
|  |  |  |
|  | Financial indicators:  |  |
|  | Current ratio - Ratio x : 1  |  |
|  | It looks at the ability of the business to repay its short- term debts. |  |
|  | Acid test ratio - Ratio x : 1  |  |
|  | It looks at the ability of the business to repay its short-term debts without being forced to sell stock. |  |
|  | Net current assets (net working capital) – Rand |  |
|  | Stock turnover rate – Times per year |  |
|  | It looks at how often does the business replenish / order its stock. |  |
|  | Average debtors collection period – Days |  |
|  | It looks at how soon does the business receive money from its debtors. |  |
|  | Average creditors payment period – Days |  |
|  | It looks at how soon does the business pay its creditors. |  |
|  | Stock holding period – Days |  |
|  | It looks at how often is stock replenished. |  |
|  |  |  |
|  |  |  |
| **3.** | **SOLVENCY** |  |
|  | *The ability of a business to pay off all its debt*  |  |
|  |  |  |
|  | Financial indicator:  |  |
|  | Total assets: Total liabilities  |  |
|  | The business is either solvent or not, depending on whether the assets are more than the liabilities. |  |
|  | If the assets are more than liabilities then the business is solvent and vice versa. |  |
|  |  |  |
| **4.** | **RETURNS** |  |
|  | *How profitable is the owner’s investment in the business*  |  |
|  |  |  |
|  | Financial indicators:  |  |
|  | Return on average partners’ equity - %  |  |
|  | The percentage can be compared to bank interest rates for alternative investments. |  |
|  |  |  |
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| **FORMULAS USED TO CALCULATE FINANCIAL INDICATORS** |  |
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| --- | --- | --- | --- |
| **Area of Analysis** | **Related financial indicators** | **How it is calculated-formula** | **Answer shown as/in** |
| **Profitability / operating efficiency** | Gross profit on sales  | Gross profit x 100 Sales 1 | % |
| Gross profit on cost of sales (mark-up)  | Gross profit x 100 Cost Sales  | % |
| Net profit on sales  | Net profit x 100 Sales 1  | % |
| Operating profit on sales  | Operating profit X 100 Sales 1  | % |
| Operating expenses on sales  | Operating expenses x 100 Sales 1  | % |
| **Liquidity**  | Current ratio  | Current assets : Current liabilities  | Ratio (x:1) |
| Acid test ratio (Quick Ratio) | Receivables + Cash: Current liabilities or (Current Assets – Inventory)  | Ratio (x:1) |
| **Solvency**  | Solvency ratio  | Total assets : Total Liabilities  | Ratio (x;1) |
| Net assets | Total assets – Total liabilities | Rands |
| **Return** | Return on owners’ equity |  Net profit x 100Average owners’ equity 1 | % |

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| **ACTIVITY 1**  |
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| The following summary was extracted from the Financial Statements of Freeway Supermarket. |
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| **REQUIRED:** |  |
|  |  |  |
| 1. | Calculate the following financial indicators: |  |
|  |  |  |
|  | 1.1. | Gross profit on sales |  |
|  | 1.2 | Gross profit on cost of sales |  |
|  | 1.3 | Net profit on sales |  |
|  | 1.4 | Operating expenses on turnover |  |
|  | 1.5 | Return on owners’ equity (use average equity) |  |
|  | 1.6 | Current ratio |  |
|  | 1.7 | Acid test ratio |  |
|  |  |  |  |
| 2. | Comment on the mark-up percentage achieved. Bear in mind that the business aims at a mark-up of 60% on cost. |  |
|  |  |  |  |
| 3. | Comment on the percentage earned by the owner. |  |
|  |  |  |  |
| 4. | Comment on the current and acid-test ratios. |  |
|  |  |  |
| 5. | 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. |  |
|  |  |  |
| **INFORMATION:** |  |
|  |  |  |
| **A.** | **INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019** |  |
|  |

|  |  |
| --- | --- |
| Sales | 680 000 |
| Cost of Sales | (450 000) |
| Gross Profit | 230 000 |
| Other Income (interest) | 2 800 |
| Operating Expenses | (157 800) |
| Net Profit | 75 000 |

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| **B.** | **BALANCE SHEET AS AT 28 FEBRUARY 2019** |  |
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|  |  |
| --- | --- |
| Owners’ Equity (beginning of the year) | 200 000 |
|  (end of the year) | 300 000 |
| Non-current Liabilities | 160 000 |
| Tangible Assets | 220 000 |
| Investments (Financial Assets) | 20 000 |
| Inventory (beginning of the year) | 120 000 |
|  (end of the year) | 150 000 |
| Trade and other receivables | 122 000 |
| Cash and Cash equivalents | 24 000 |
| Trade and other payables | 76 000 |

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| **ACTIVITY 2**  |
|  |  |  |
| The information provided in this question was extracted from the books of Downtown Stores on 29 February 2020.  |
|  |  |  |
| **REQUIRED:** |  |
|  |  |  |
| 2.1 | Calculate the percentage mark-up obtained by the business. |  |
|  |  |  |
| 2.2 | Provide TWO reasons for the difference in the mark-up percentages.(See Information C). |  |
|  |  |  |
| 2.3 | Calculate the percentage gross profit on sales. |  |
|  |  |  |
| 2.4 | Calculate the percentage net profit on sales. |  |
|  |  |  |
| 2.5 | List ONE reason for the decrease in percentage in your calculations in Questions 2.3 and 2.4 |  |
|  |  |  |
| 2.6 | Calculate the return on average owner’s equity. |  |
|  |  |  |
| 2.7 | Should the owner be satisfied with his percentage return? Explain quoting financial indicators to support your answer. |  |
|  |  |  |
| 2.8 | Calculate the current ratio for 2020. |  |
|  |  |  |
| 2.9 | Calculate the acid test ratio for 2020. |  |
|  |  |  |
| 2.10 | Explain why trading stock is excluded in the calculation for the acid test ratio. |  |
|  |  |  |
| **INFORMATION:** |  |
|  |  |  |
| **A.** | **EXTRACT FROM THE INCOME STATEMENT** |  |
|  |

|  |  |
| --- | --- |
| Sales | 850 000 |
| Cost of Sales | (500 000) |
| Gross Profit | 350 000 |
| Other operating income | 10 000 |
| Operating expenses | (241 000) |
| Net profit for the year | 119 000 |

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| **B.** | **EXTRACT FROM THE BALANCE SHEET** |  |
|  |

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
| Owner’s Equity | 450 000 | 350 000 |
| Tangible Assets | 80 000 |  |
| Non-current Liabilities | 50 000 |  |
| Inventories | 92 000 |  |
| Trade and other Receivables | 24 200 |  |
| Cash and Cash Equivalents | 6 800 |  |
| Trade and other Payables | 41 000 |  |

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| **C.** | **FINANCIAL INDICATORS** |  |
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| --- | --- | --- |
|  | **2020** | **2019** |
| Gross Profit on Sales |  | 43% |
| Net Profit on Sales |  | 24% |
| Mark-up | 100% | 100% |
| Current ratio |  | 2.5:1 |
| Acid test ratio |  | 1.2:1 |
| Return on average Owner’s Equity |  | 23% |
| Interest on Fixed Deposit | 8%p.a. | 8%p.a. |

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| **ACTIVITY 3**  |
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| The following information was extracted from the Accounting records of Barcelona Stores for the year ending 29 February 2020. |
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| **REQUIRED:** |  |
|  |  |  |
| 3.1 | Calculate the following financial indicators for the year ended 29 February 2020: |  |
|  |  |  |
|  | * Gross profit percentage on Cost of Sales
* Return on Owner’s Equity
* Solvency ratio
* Current ratio
* Acid-test ratio
 |  |
|  |  |  |
| 3.2 | Is the degree of solvency of the business satisfactory? Explain quoting figures. |  |
|  |  |  |
| 3.3 | Explain if the increase in the gross profit percentage was a good strategy. Quote figures |  |
|  |  |  |
| 3.4 | Return on Owner’s Equity |  |
|  |  |  |
|  | * Comment on the return on Owner’s Equity.
* The owner is offered a maximum return on Investment of 8% by his financial Institution. Advise him about the offer.
 |  |
|  |  |  |
| 3.5 | Should the owner be satisfied with the profitability of the business? Explain by quoting TWO relevant financial indicators.  |  |
|  |  |  |
| 3.6 | Comment on the liquidity of the business by quoting TWO relevant financial indicators. |  |
|  |  |  |
|  |  |  |
| **INFORMATION:** |  |
|  |  |  |
| **A.** | **EXTRACT FROM THE INCOME STATEMENT**  |  |
|  |

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
| Sales | 2 400 000 | 1 860 000 |
| Cost of Sales | (1 554 000) | (1 440 000) |
| Gross Profit | 846 000 | 420 000 |
| Other Operating Income | 190 000 | 180 000 |
| Gross Operating Income | 1 036 000 | 600 000 |
| Operating expenses | (668 000) | (479 000) |
| Operating Profit | 368 000 | 121 000 |
| Interest Income | 16 000 | 16 000 |
| Interest Expense | (65 620) | (70 320) |
| Net Profit | 318 380 | 66 680 |

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| **B.** | **EXTRACT FROM THE BALANCE SHEET** |  |
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| --- | --- | --- |
|  | **2020** | **2019** |
| Tangible/ Fixed Assets | 300 000 | 240 000 |
| Fixed Deposit | 400 000 | 400 000 |
| Current Assets (including Inventories) | 648 400 | 746 000 |
| Inventories | 518 400 | 495 000 |
| Owner’s Equity | 665 200 | 604 000 |
| Non-current liabilities | 460 000 | 544 000 |
| Current Liabilities | 259 200 | 238 000 |

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| **C.** | **FINANCIAL INDICATORS** |  |
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| --- | --- | --- |
|  | **2020** | **2019** |
| Gross profit percentage on sales | 55.3% | 32.6% |
| Gross profit percentage on cost of sales | ? | 39.2% |
| % operating expenses on sales | 37.8% | 35.8% |
| % operating profit on sales | 25.3% | 16.5% |
| % net profit on sales | 23.3% | 13.6% |
| % return on owner’s equity | ? | 16.5% |
| Solvency ratio | ? | 1.6:1 |
| Current ratio | ? | 3.1:1 |
| Acid-test ratio | ? | 1.3:1 |

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| **ACTIVITY 4**  |
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| You are provided with information relating to Access Furnishers for the year ended 30 June 2019. The business uses a fixed mark-up of 50% on cost.  |
|  |  |  |
| **REQUIRED:** |  |
|  |  |  |
| 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.  |  |
|  |  |  |
| 4.2 | Calculate the following financial indicators: |  |
|  |  |  |
|  | * Mark-up % achieved
* % Net profit on turnover
* Current ratio
* Acid test ratio
* % Return on average owners’ equity earned
 |  |
|  |  |  |
| 4.3 | Should the owner be satisfied with the mark-up % achieved? Explain quoting figures.  |  |
|  |  |  |
| 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.
* Provide one reason why the owner would not be satisfied with the return on his investment in 2019.
 |  |
|  |  |  |
| **INFORMATION:** |  |
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| --- | --- |
| Sales | 1 312 000 |
| Cost of sales | 976 000 |
| Net profit | 185 600 |
| Capital (1 July 2018) | 496 000 |
| Drawings | 118 400 |
| Fixed deposit (8% p.a.) | 32 000 |
| Trading stock | 353 536 |
| Current assets (including trading stock) | 599 840 |
| Current liabilities | 265 600 |
| Fixed/tangible assets | ? |
| Non-current liabilities | 260 800 |

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| **CLASS TEST (40 marks; 35 minutes)** |
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| **A** | **CONCEPTS** |  |
|  |  |  |
| 1.1 | Choose the correct word from the list for each statement given. |  |
|  | liquidity; solvency; profitability; return on investment |  |
|  |  |  |
|  | 1.1.1 | How efficient a business is. |  |
|  | 1.1.2 | Whether the owner’s equity would be better rewarded elsewhere. |  |
|  | 1.1.3 | How stable a business is to survive in the long-run |  |
|  | 1.1.4 | Whether a business is able to pay off its short-term debts. | (4) |
|  |  |  |
| **B** | **INTERPRETATION OF FINANCIAL STATEMENTS** |  |
|  |  |  |
| 1.2 | **SWIFT TRADERS**The following information relates to on 28 February 2020. |  |
|  |  |  |
|  | **REQUIRED:** |  |
|  | *Note:* A formula sheet is supplied. All calculations to be rounded off to ONE decimal place. |  |
|  |  |  |
|  | Calculate the following ratios for 2020 and comment as indicated: |  |
|  |  |  |  |
|  | 1.2.1 | Current ratio | (6) |
|  | 1.2.2 | Acid test ratio | (3) |
|  | 1.2.3 | Compare these results with those of 2019 and comment on the liquidity of the business. | (4) |
|  | 1.2.4 | Calculate the percentage return on average owner’s equity. | (6) |
|  | 1.2.5 | Should the owner be satisfied with this return? Motivate your answer. | (3) |
|  |  |  |
| **INFORMATION:** |  |
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|  |  |
| --- | --- |
| Capital (1 March 2019) | 400 000 |
| Net profit | 90 000 |
| Trading stock | 46 500 |
| Creditors | 26 000 |
| Drawings | 70 000 |
| Debtors | 33 000 |
| Bank overdraft | 24 000 |
| Cash float | 2 500 |
| Current ratio (2019) | 2:1 |
| Acid test ratio (2019) | 1.5:1 |

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| 1.3 | **LS COMPUTERS**The financial year ends at the end of February each year. |  |
|  |  |  |
|  | **REQUIRED:** |  |
|  |  |  |
|  | 1.3.1 | Calculate the percentage mark-up for 2020  | (3) |
|  | 1.3.2 | Give TWO reasons for the deviation from the target mark-up of 40%. | (4) |
|  | 1.3.3 | The percentage mark-up for 2019 was 50%. What influence did the change in mark-up have on the business? Quote figures to support your answer.  | (2) |
|  | 1.3.4 | LS Computers spent less on national advertising and focused on local advertising. Was this decision to their advantage? Quote figures to support your answer. | (3) |
|  | 1.3.5 | What percentage of sales is spent on salaries and wages? | (2) |
|  |  |  |  |
|  | **INFORMATION:** |  |
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| --- | --- | --- |
|  | **2018** | **2017** |
| Sales | 810 000 | 645 000 |
| Cost of sales | 600 000 | ? |
| Gross profit | 210 000 | 215 000 |
| Mark-up target | 40% | 50% |
| Advertising | 30 000 | 55 000 |
| Salaries and Wages | 64 800 | ? |
| Net profit | 150 000 | 136 000 |

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**FORMULA SHEET ACCOUNTING FINANCIAL INDICATORS**

|  |  |  |
| --- | --- | --- |
| Gross profit X 100  Sales 1 |  Gross profit X 100  Cost of sales 1 | Net profit X 100  Sales 1 |
| Operating expenses X 100  Sales 1 | Operating profit X 100 Sales 1 |
| Current assets: Current liabilities | (Current assets – Inventories): Current liabilities |
| (Trade and other receivables + cash and cash equivalents): Current liabilities |
|   Net profit\_\_ X 100  Owner's equity 1 | Total assets : Total liabilities |