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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: Introduction to Grade 11 financial indicators | | | | | **Term** | 2 | **Week** | 6 | |

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| **WORKSHEET 1** | | | | | |  |
| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 6 | |

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| **ACTIVITY 1** | |  |  |  |  |
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| **Calculate and comment on the following financial indicators for 2020:** |
| **1.1 Stock turnover rate**  654 000  ½ (45 875 + 33 390)  = 654 000  39 633  = 16.5 times  The stock turnover rate of 16.5 times is an indication that the business is more competitive resulting to the stock being more liquid. |
| * 1. **Stock holding period**   ½ (45 875 + 33 390) x 365  654 000 1  = 39 633 x 365  654 000 1  = 22 days  Stock being replenished after every 22 days means that the business does not have a stock holding problem because stock is converted into cash within this period. |
| * 1. **Average debtors’ collection period**   ½ (9 630 + 8 224) x 365  92 500 1  = 8 927 x 365  92 500 1  = 35 days   * The collection period is just more than 30 days. * The business must improve its credit control by collecting debts within 30 days. * The business could improve its credit collection by allowing discount to early payment or by charging interest on accounts in arrears. |
| * 1. **Average creditors’ payment period**   ½ (15 744 + 19 887) x 365  179 580 1  = 17 816 x 365  179 580 1  = 36 days  The business should negotiate with the creditors in order to make use of the 90 days concession. |

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| **WORKSHEET 2** | | | | | |  |
| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 6 | |

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| **ACTIVITY 2** | |  |  |  |  |
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| **Calculate and comment on the following financial indicators for 2020:** |
| * 1. **Stock turnover rate**   276 180  ½ (55 710 + 28 252)  = 276 180  41 981  = 6.6 times  Stock is replenished 6.6 times during the year, this may be good or bad depending on the type of product being sold. |
| * 1. **Stock holding period**   ½ (55 710 + 28 252) x 365  276 180 1  = 41 981 x 365  276 180 1  = 55 days  Stock is replenished after 55 days, whether this is good or bad depends on the type of the product. |
| * 1. **Average debtors’ collection period**   ½ (44 577 + 26 650) x 365  354 130 1  = 35 614 x 365  354 130 1  = 37 days   * The collection period is more than 30 days. * The business must improve its credit control by collecting debts within 30 days. * The business could improve its credit collection by allowing discount to early payment or by charging interest on accounts in arrears. |
| * 1. **Average creditors’ payment period**   ½ (33 175 + 40 424) x 365  253 472 1  = 36 800 x 365  253 472 1  = 53 days  The business should negotiate with the creditors in order to make use of the 90 days concession. |

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| **WORKSHEET 3** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 6 | |

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| **ACTIVITY 3** | |  |  |  |  |
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| * 1. **Calculate the following for 2020:** |
| * + 1. **Percentage return earned by MF Stores**   Net profit = (40 000 + 28 000 + 9 500 + 4 750 + 8 000 + 4 000)  = 94 250  Partners equity: 2020 = (200 000 + 100 000 + 12 000 – 3 000)    = 309 000  Partners equity: 2019 = (180 000 + 90 000 + 18 000 – 9 000)    = 279 000  94 250 x 100  ½ (309 000 + 279 000) 1  = 32% |
| **3.1.2 Amount earned by Mark**  40 000 + 9 500 + 8 000  = R57 500 |
| * 1. **3 Amount earned by Fish**   28 000 + 4 750 + 4 000  = R36 750 |
| * + 1. **Percentage return earned by Mark**   57 500 x 100  ½ (200 000 + 12 000 + 180 000 + 18 000) 1  = 57 500 x 100  205 000 1  = 28% |
| * + 1. **Percentage return earned by Fish**   36 750 x 100  (100 000 – 3 000 + 90 000 – 9 000) 1  = 36 750 x 100  178 000 1  = 20.6% |

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| * 1. **Calculate the debt/equity ratio for 2019 and 2020.** |
| 2019 = 250 000 : (180 000 + 90 000 + 18 000 – 9 000)    = 250 000 : 279 000    = 0.9 : 1  2020 = 210 000 : (200 000 + 100 000 + 12 000 – 3 000)  = 210 000 : 309 000  = 0.7 : 1 |

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| * 1. **Comment on your calculations above.** |
| * Percentage returns are satisfactory because they are higher than what is usually offered as interest by financial institutions. * The decline in the debt-equity ratio from 0.9 : 1 in 2019 to 0.7 :1 in 2020 is an indication that the business is relying more on own capital in 2020 than in 2019. |

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| **WORKSHEET 4** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 6 | |

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| **ACTIVITY 4** | |  |  |  |  |
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| **Calculate and comment on the following financial indicators:** |
| * 1. **Percentage return earned by NM Stores for 2020**   Partners equity: 2020 = 420 000 + 380 000 + 20 000 + 5 000  = 825 000  Partners equity: 2019 = 360 000 + 330 000 + 8 000 + 3 000  = 701 000  Percentage return earned by NM Stores = 152 250 x 100  ½ (825 000 + 701 000) 1  = 152 250 x 100  763 000 1  = 20%  The percentage return of 20 % earned by NM Stores is satisfactory considering that alternative investments like fixed deposits usually earn less. |
| * 1. **Amount earned by Naidoo in 2020**   60 000 + 19 500 + 15 000  = R94 500 |
| * 1. **Amount earned by Martin in 2020**   30 000 + 17 750 + 10 000  = R57 750 |

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| * 1. **Percentage return earned by Naidoo in 2020**   94 500 x 100  ½ (420 000 + 20 000 + 360 000 + 8 000) 1  = 94 500 x 100  404 000 1  = 23.4%  The percentage return of 23.4 % earned by Naidoo is satisfactory considering that alternative investments like fixed deposits usually earn less. |
| **4.5 Percentage return earned by Martin in 2020**  57 750 x 100  ½ (380 000 + 5 000 + 330 000 + 3 000) 1  = 57 750 x 100  359 000 1  = 16.1%  The percentage of 16.1% earned by Martin is less than that earned by the business and Naidoo but still higher than alternative investments. |
| **4.6 Debt/equity ratio for both years**.  2019 = 300 000 : (360 000 + 330 000 + 8 000 + 3 000)  = 300 000 : 701 000  = 0.4 : 1  2020 = 200 000 : (420 000 + 380 000 + 20 000 + 5 000)  = 200 000 : 825 000  = 0.2 : 1   * The ratio in both years indicates that the business is mostly financed by their own capital than borrowed capital. * The decline in the debt-equity ratio from 0.4 : 1 in 2019 to 0.2 :1 in 2020 is an indication that the business is relying more on own capital in 2020 than in 2019. |

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| **WORKSHEET 5** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 6 | |

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| **ACTIVITY 5** | |  |  |  |  |
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| * 1. **Calculate and comment briefly on the following financial indicators.**   **When commenting refer also to the corresponding figures which are**  **provided for 2019.** |
| * **Rate of stock turnover**   240 000  ½ (78 900 + 70 800)  = 240 000  74 850  = 3.2 times  Improved from 2.1 times in 2019 to 3.2 times in 2020 and this is an indication that there has been an improvement in sales. |
| * **Percentage return on equity**   Partners equity: 2019 = 70 000 + 30 000 + 10 000 + 8 000  = 118 000  Partners equity: 2020 = 100 000 + 50 000 + 6 000 + 4 000  = 160 000  60 000 x 100  ½ (118 000 + 160 000) 1  = 60 000 x 100  139 000 1  = 43.2%  Increased from 33.3% in 2019 to 43.2% in 2020 and it is higher than alternative investments in financial institutions e.g. fixed deposit. |

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| * **Percentage return earned by John**   40 000 x 100  ½ (70 000 + 10 000 + 100 000 + 6 000) 1  = 40 000 x 100  93 000 1  = 43%  Increased from 30.5% in 2019 to 43% in 2020 and is more or less equal to the return on equity of the business. It is also higher than alternative investments in financial institutions e.g. fixed deposit. |
| * **Percentage return earned by Shaun**   20 000 x 100  ½ (30 000 + 8 000 + 50 000 + 4 000) 1  = 20 000 x 100  46 000 1  = 43.5%  Increased from 39.2% in 2019 to 43.5% and is more or less equal to the equity of the business. It is also higher than alternative investments in financial institutions e.g. fixed deposit. |
| * **Debt / equity ratio**   60 000 : 160 000  = 0.4 : 1  Decreased from 0.5:1 in 2019 to 0.4:1 in 2020.  The risk is low, the business relies more on own capital than interest bearing loans. |

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| * 1. **The partners increased their capital contributions considerably during**   **the year. How were these extra funds utilized?** |
| * Purchase of fixed assets * Repayment loans |
| * 1. **The business might require extra capital funds in the future. Do you**   **advise that they take out further loans or should they increase their**  **capital contributions? Comment briefly.** |
| * The debt equity ratio decreased from 0.5:1 in 2019 to 0.4:1 in 2020. * They may take out further loan because the gearing is low and satisfactory |

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| * 1. **Calculate the following:** |
| * **How long the trading stock is expected to last**   ½ (70 800 + 78 900) x 365  240 000 1  = 74 850 x 365  240 000 1  = 113.8 days |
| * **The period of credit granted to debtors**   ½ (40 000 + 30 200) x 365  192 000 1  = 35 100 x 365  192 000 1  = 66.7 days |
| * **The period credit granted by creditors**   ½ (24 800 + 12 300) x 365  240 000 1  = 18 550 x 365  240 000 1  = 28 days |

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| * 1. **What advice do you offer this business with regard to its control of**   **working capital?** |
| * Credit policy which will require debtors to pay within 30 days (allow discounts for payments within 30 days and charge interest on overdue accounts) * Arrange with suppliers to allow them 90 days to pay their debts. * Increase sales through price reduction in order to reduce stock holding period (strategies to increase sales) |