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

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| **VERY IMPORTANT** | |  |
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| * These financial indicators are in addition to the ones you’ve learnt in grade 10. * Know the formulae to calculate and interpret financial indicators. | |  |
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| **CATEGORIES OF FINANCIAL INDICATORS** | |  |
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| **1.** | **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.* |  |
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|  | **Financial indicators:** |  |
|  |  |  |
|  | * **Stock turnover rate – Times per year** |  |
|  | * It indicates how often does the business replenish / order its stock. * A high rate is usually advantageous and a low rate is usually an indication of stockpiling, wrong purchases or poor sales. |  |
|  |  |  |
|  | * **Stock holding period – Days** |  |
|  | * It indicates how long it takes before stock is replenished. * It is important for placing orders and purchasing policy. The longer the period the more working capital is tied up. |  |
|  |  |  |
|  | * **Average debtors collection period – Days** |  |
|  | * It indicates how soon the business receives money from its debtors. * The shorter the period (less than 30 days) the better. * Early payment can be encouraged by giving settlement discounts or charge interest on overdue accounts. |  |
|  |  |  |
|  | * **Average creditors payment period – Days** |  |
|  | * It indicates how soon the business pays its creditors. * The longer the period (60 to 90 days) the better. |  |
|  |  |  |
| **2.** | **RISK AND GEARING:** |  |
|  | To what extent is the business financed by loans compared to its own capital. |  |
|  |  |  |
|  | **Financial indicators:** |  |
|  |  |  |
|  | * **Debt equity ratio** |  |
|  | * Compare owners’ equity to Non-current liabilities * The lower the ratio, the lower the risk and vice versa. * High risk means the business uses interest-bearing loans to finance the business. * Low risk means the business uses more own than borrowed money to finance the business. |  |
|  |  |  |
| 3. | **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 |  |
|  |  |  |
|  | * **% Return earned by each partner** |  |
|  | * The percentage can be compared to the partnerships returns, other partner and 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** | | | **Liquidity** | Stock turnover rate | Cost of sales  Average stock | Times per year | | | Stock holding period | Average stock x 365  Cost of sales 1 | Number of days | | Debtors’ average collection period | Average debtors x 365  Credit sales 1 | Number of days | | Creditors’ average payment period | Average creditors x 365  Credit Purchases 1 | Number of days | | **Financial risk Gearing** | Debt/equity ratio | Non-current liabilities: partners’ equity | Ratio (x:1) | | **Return** | Return on average partners’ equity | Net profit x 100  Average owners’ equity 1 | % | | Return earned by each partner | Partner’s earnings x 100  Average partners’ equity 1 | % | | | |

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| **ACTIVITY 1** | | |
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| The following information was extracted from the financial records of CA Clothing for the year ending 29 February 2020. | | |
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| **REQUIRED:** | |  |
|  |  |  |
| Calculate and comment on the following financial indicators for 2020: | |  |
|  |  |  |
| 1.1 | Stock turnover rate |  |
| 1.2 | Stock holding period |  |
| 1.3 | Average debtors’ collection period |  |
| 1.4 | Average creditors’ payment period |  |
|  |  |  |
| **INFORMATION:** | |  |
|  |  |  |
| **A.** | **EXTRACT FROM THE INCOME STATEMENT** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | Sales | 1 146 400 | 950 400 | | Cost of sales | 654 000 | 528 000 | | Gross profit | 492 400 | 422 400 | | Operating expenses | 202 867 | 180 576 | | Interest expense | 27 000 | 30 000 | | Net profit for the year | 284 000 | 190 080 | |  |
|  |  |  |
| **B.** | **EXTRACT FROM THE BALANCE SHEET** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | **Current Assets** |  |  | | Inventory | 45 875 | 33 390 | | Trade and other receivables | 9 630 | 8 224 | | Cash and cash equivalents | 10 633 | 5 236 | | **Current liabilities** |  |  | | Trade and other payables | 15 744 | 19 887 | | Short term loans | 20 000 | 20 000 | |  |
|  |  |  |
| **C.** | **ADDITIONAL INFORMATION** |  |
|  | * The credit sales for 2020 were R92 500. * The credit purchases for 2020 were R179 580. |  |

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| **ACTIVITY 2** | | |
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| The following information was extracted from the financial records of Macadam Stores, with partners M. Mac and A. Adam for 2019 and 2020. | | |
|  |  |  |
| **REQUIRED:** | |  |
|  |  |  |
| Calculate and comment on the following financial indicators for 2020: | |  |
|  |  |  |
| 2.1 | Stock turnover rate |  |
| 2.2 | Stock holding period |  |
| 2.3 | Average debtors’ collection period |  |
| 2.4 | Average creditors’ payment period |  |
|  |  |  |
| **INFORMATION:** | |  |
|  |  |  |
| **A.** | **EXTRACT FROM THE INCOME STATEMENT** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | Sales | 665 034 | 667 034 | | Cost of sales | 276 180 | 266 800 | | Gross profit | 388 854 | 400 200 | | Operating expenses | 203 741 | 213 450 | | Interest expense | 26 970 | 28 000 | | Net profit for the year | 168 640 | 153 418 | |  |
|  |  |  |
| **B.** | **EXTRACT FROM THE BALANCE SHEET** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | **Current Assets** |  |  | | Inventory | 55 710 | 28 252 | | Trade and other receivables | 44 577 | 26 650 | | Cash and cash equivalents | 1 250 | 5 634 | | **Current liabilities** |  |  | | Trade and other payables | 33 175 | 40 424 | | Bank overdraft | 20 570 | - | | Short term loans | 20 000 | 20 000 | |  |
|  |  |  |
| **C.** | **ADDITIONAL INFORMATION** |  |
|  | * The credit sales for 2020 were R354 130. * The credit purchases for 2020 were R253 472 |  |

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| **ACTIVITY 3** | | | |
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| The following information was extracted from the financial records of MF Traders for the year ended 28 February 2020. | | | |
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| **REQUIRED:** | | |  |
|  |  | |  |
| 3.1 | Calculate the following for 2020: | |  |
|  |  | |  |
|  | 3.1.1 | Percentage return earned by MF Stores |  |
|  | 3.1.2 | Amount earned by Mark |  |
|  | 3.1.3 | Amount earned by Fish |  |
|  | 3.1.4 | Percentage return earned by Mark |  |
|  | 3.1.5 | Percentage return earned by Fish |  |
|  |  |  |  |
| 3.2 | Calculate the debt/equity ratio for 2019 and 2020 | |  |
|  |  | |  |
| 3.3 | Comment on your calculations above. | |  |
|  |  | |  |
| **INFORMATION:** | | |  |
|  |  | |  |
| **A.** | |  |  | | --- | --- | | Net profit | ? | | Salary: Mark | 40 000 | | Salary: Fish | 28 000 | | Interest on capital: Mark | 9 500 | | Interest on capital: Fish | 4 750 | | Share of remaining profit: Mark | 8 000 | | Share of remaining profit: Fish | 4 000 | | |  |
|  |  | |  |
| **B.** | **EXTRACT FROM THE BALANCE SHEET** | |  |
|  |  | |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | Capital: Mark | 200 000 | 180 000 | | Capital: Fish | 100 000 | 90 000 | | Current account: Mark | 12 000 | 18 000 | | Current account: Fish | (3 000) | (9 000) | | Non-current Liabilities | 210 000 | 250 000 | | |  |
|  |  | |  |
|  | The interest rate on the loan is 18% p.a. | |  |

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| **ACTIVITY 4** | | |
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| The following information was extracted from the financial records of NM Stores for the year ended 28 February 2020. | | |
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| **REQUIRED:** | |  |
|  |  |  |
| Calculate and comment on the following financial indicators. | |  |
|  |  |  |
| 4.1 | Percentage return earned by NM Stores for 2020 |  |
| 4.2 | Amount earned by Naidoo in 2020 |  |
| 4.3 | Amount earned by Martin in 2020 |  |
| 4.4 | Percentage return earned by Naidoo in 2020 |  |
| 4.5 | Percentage return earned by Martin in 2020 |  |
| 4.6 | Debt/equity ratio for both years. |  |
|  |  |  |
| **INFORMATION:** | |  |
|  |  |  |
| **A.** | |  |  | | --- | --- | | Net profit | 152 250 | | Salary: Naidoo | 60 000 | | Salary: Martin | 30 000 | | Interest on capital: Naidoo | 19 500 | | Interest on capital: Martin | 17 750 | | Share of remaining profit: Naidoo | 15 000 | | Share of remaining profit: Martin | 10 000 | |  |
|  |  |  |
| **B.** | **EXTRACT FROM THE BALANCE SHEET** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | Capital: Naidoo | 420 000 | 360 000 | | Capital: Martin | 380 000 | 330 000 | | Current account: Naidoo | 20 000 | 8 000 | | Current account: Martin | 5 000 | 3 000 | | Non-current liabilities | 200 000 | 300 000 | |  |

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| **ACTIVITY 5** | | |
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| You are provided with the following information for JS Traders, owned by John and Shaun for the financial year ended 29 February 2020. Comparative figures for the previous year are also provided in the Balance Sheet figures. | | |
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| **REQUIRED:** | |  |
|  |  |  |
| 5.1 | 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 * Percentage return on equity * Percentage return earned by John * Percentage return earned by Shaun * Debt equity ratio |  |
|  |  |  |
| 5.2 | The partners increased their capital contributions considerably during the year. How were these extra funds utilized? |  |
|  |  |  |
| 5.3 | 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. |  |
|  |  |  |
| 5.4 | Calculate the following: |  |
|  |  |  |
|  | * How long the trading stock is expected to last * The period of credit granted to debtors * The period credit granted by creditors |  |
|  |  |  |
| 5.5 | What advice do you offer this business with regard to its control of working capital? |  |
|  |  |  |
| **INFORMATION:** | |  |
|  | |  |
| **A.** | **EXTRACT FROM THE INCOME STATEMENT:** |  |
|  | |  |  | | --- | --- | | Sales | 384 000 | | Cost of Sales | (240 000) | | Gross profit | 144 000 | | Other operating income | 20 000 | | Operating expenses | 95 600 | | Operating profit | 68 400 | | Interest expense | 8 400 | | Net profit | 60 000 | |  |
|  |  |  |
| **B.** | **EXTRACT FROM THE BALANCE SHEET** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | **Non-Current Assets** |  |  | | Fixed assets | 124 000 | 83 000 | | Fixed deposits | 7 000 | 7 000 | | **Current Assets** |  |  | | Inventories | 70 800 | 78 900 | | Trade and other receivables | 41 500 | 31 900 | | Trade debtors | 40 000 | 30 200 | | Cash and cash equivalents | 5 600 | 7 200 | | **Current Liabilities** |  |  | | Trade and other payables | 25 800 | 13 100 | | Trade creditors | 24 800 | 12 300 | | **Owners’ equity** |  |  | | Capital: John | 100 000 | 70 000 | | Capital: Shaun | 50 000 | 30 000 | | Current account: John | 6 000 | 10 000 | | Current account: Shaun | 4 000 | 8 000 | | **Non-current liabilities** | 60 000 | 75 000 | |  |
|  |  |  |
| **C.** | **FINANCIAL INDICATORS:** |  |
|  | |  |  | | --- | --- | |  | **2019** | | Rate of stock turnover | 2.1 times | | Percentage return on equity | 33.3% | | Percentage return earned by John | 30.5% | | Percentage return earned by Shaun | 39.2% | | Debt equity ratio | 0.5:1 | |  |
|  |  |  |
| **D.** | **OTHER INFORMATION:** |  |
|  |  |  |
|  | 1. Amount earned by John in 2020 is R40 000 |  |
|  | 1. Amount earned by Shaun in 2020 is R20 000 |  |
|  | 1. Half of the sales are on credit |  |
|  | 1. Amount for credit purchases is R240 000 |  |
|  | 1. The business uses the perpetual inventory system and mark-up of 70% on cost on all stock. |  |
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