 Province of the

 EASTERN CAPE

EDUCATION

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

**HOME SCHOOLING SELF-STUDY MARKING GUIDELINES**

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| **SUBJECT** | **ACCOUNTING** | **GRADE** | 11 | **DATE** | 19 May –2020 |
| **TOPIC** | **Analysis and interpretation of financial statements** |  **Term 2** |

**ACTIVITY 2 RATIO & INTERPRETATION MEMO**

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| **1** | **Gross profit on sales**$$\frac{603 400}{1 478 000} X 100=40.83\%$$ |
| **2** | **Gross profit on cost of sales**$$\frac{603 400}{874 600} X 100=68.99\%$$ |
| **3** | **Net profit on sales**$$\frac{304 000}{1 478 000} X 100=20.57\%$$ |
| **4** | **Operating profit on sales**$$\frac{257 400}{1 478 000} X 100=17.42\%$$ |
| **5** | **Operating expenses on sales**$$\frac{346 000}{1 478 000} X 100=23.41\%$$ |
| **6** | **Solvency ratio** 1 059 400: (300 000 + 59 400)1 059 400: 359 4002.95:1Solvency ratio has improved (2.95:1 from 2.04:1). For every R1 of outside funding, the firm has 2.95 of its own funds. Total assets exceed total liabilities. The firm is technically solvent. |
| **7** | **Current ratio** 336 400: 59 4005.66:1Improved from 2.84:1 to 5.66:1. For every R1 owing the firm has R5.66 available. The liquid position is satisfactory because the firm will have enough liquid funds to meet its commitments in the short term. |
| **8** | **Acid test ratio** 336 400 – 220 000: 59 400116 400: 59 4001.96:1Improved from 0.92:1 to 1.96:1. The liquid position is satisfactory because the firm will have enough funds to meet its commitments in the short term even if stock does not sell fast enough. |
| **9** | **Stock turnover rate** $\frac{874 600 }{212 000}$ = 4.13 timesStock turnover rate has declined 4.13 from 5.66 times a year. Cash is being tied up in stock for longer period and there will be need for more storage space. Other administration expenses will be incurred. |
| **10** | **Stock holding period** $$\frac{212 000}{874 600} X 365 =30.05 days$$Stock holding period has deteriorated from 64.5 days to 88.47 days. Pressure is placed on the firm’s cash resources. |
| **11** | **Average debtors’ collection period**$\frac{\frac{1}{2} \left(84 000+62 000\right)X 365 }{0.60 \left(1 478 000\right) 1}=30.05 days$ Debtors collection has improved from 42 days to 30 days. This favours liquidity because cash is tied up with debtors for a shorter period and the risk of bad debts is decreased. |
| **12** | **Average creditors payment period** $$\frac{\frac{1}{2} \left(48 700+57 000\right)X 365}{874 600}=32.2 days$$Creditors payment period has deteriorated from 40 days to 32 days. More pressure on cash resources because money is paid quicker than last year. |