 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** | 20 May –2020 |
| **TOPIC** | **Analysis and interpretation of financial statements** | **Term 2** | | | |

**ACTIVITY 3 RATIO MEMO**

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| 3.1 | **Complete each of the following statements by supplying the missing word/s.**  **Note: Do not re-write the sentences. Write only the missing words.** | |
|  | 3.1.1 | Cost of sales |
|  | 3.1.2 | Operating expenses |
|  | 3.1.3 | Owners’ equity / Partnership equity / total assets - Total liabilities |
|  | 3.1.4 | Current ratio / Acid test ratio |
|  | 3.1.5 | Trading Stock deficit / surplus |

***Learner must have at least one component of the calculation correct to achieve the 🗹***

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| **3.2** | **Should the partners be satisfied with the stock turnover rate? Explain by quoting the financial indicators for both years to support your answer.** |
|  | **Opinion:**  Yes    **Comment:**  The business is selling its stock more quickly in 2018.  Stock turnover rate has improved from 5 times in 2017 to 7 times in 2018.  (Any other relevant answer) |
| **3.3** | **Comment on the Debtor’s collection period and the Creditors’ payment period** |
|  | Comment on Debtors’ collection  Comment on Creditors’ payment  Comparison of debtors and creditors and advice   * There was an improvement in the debtors’ collection period. * 65 days in 2017 to 55 days in 2018. * Collection is now below 60 days. * There was an increase in the creditors’ payment period. * 40 days in 2017 to 50 days in 2018. Improvement * Creditors are paid before money is collected from debtors. * Creditors’ payment can be extended to 60 days. |
| **3.4** | **In your opinion has the business been able to control its operating expenses well in 2018? Quote figures from both years to support your answer.** |
|  | **Opinion:**  No  **Comment:**  Operating expenses on sales increased from 30% to 47.2% |

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| **3.5** | **Explain reasons for the difference between the percentage operating expenses/profit on sales and the percentage net profit on sales.** |
|  | In both years the interest expenses exceeded the interest income.  OR  Any acceptable answer |

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| **3.6** | **Calculate the percentage return earned by the business on average equity for 2018.** |
|  | 990 000 x 100  (4 350 000 + 3 620 000 )/2  990 000 x 100  3 985 000  = 24.84% |

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| **3.7** | **The percentage return earned by Bassadien on her average equity is 20.53%. Provide a calculation to prove that this calculation is correct.** |
|  | 430 000 x 100  (1 760 000 + 1 760 + 370 000 )/2  430 000 x 100  2 095 000  = 20.53% |

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| **3.8** | **Comment on the percentage return earned by Bassadien. Quote a financial indicator for both years to support your answer.** |
|  | Bassadien should not be completely satisfied as her return (20.53%) has decreased from 24.9%  It is lower than the average return on the average equity (30.46%)  It is lower than the return earned by Rensburg (25.5%) |

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| **3.9** | **Comment on the debt/equity ratio. Quote a financial indicator for both years to support your answer.** |
|  | Debt/equity ratio increased from 0.9:1 in 2017 to 1.3:1 in 2018  This indicates that the business is making more use of loans.  The business is at risk should the profits decrease in the future. |

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| **3.10** | **What percentage of the net income did the partners withdraw from the business in 2018?** |
|  | 385 000 x 100  990 000    = 38.89 |

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| **3.11** | **Comment on the profitability of the business. Quote THREE financial indicators and figures to support your answer.** |
|  | 2018 2017  % Operating expenses on sales 47.2% 30%  % Operating profit on sales 18% 22%  % Net profit on sales 15% 17.5%  Net profit percentage and percentage operating profit on sales has dropped from 2018. This was mainly due to an increase in percentage operating expenses on sales. |