 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** | 22 May –2020 |
| **TOPIC** | **Analysis and interpretation of financial statements** | **Term 2** | | | |

**ACTIVITY 5 RATIO & INTERPRETATION**

**Appropriation Account**

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| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 2019  Feb | 28 | Salaries: Lucwaba | 135 000 | 2019  Feb | 28 | Profit and loss | **490 625** | |  |  | Salaries: Zikalala | 90 000 |  |  |  |  | |  |  | Interest on capital | 185 625 |  |  |  |  | |  |  | Current a/c: Lucwaba | 40 000 |  |  |  |  | |  |  | Current a/c: Zikalala | 40 000 |  |  |  |  | |  |  |  | **490 625** |  |  |  | **490 625** | | |  | | --- | |  | |  | |

**Current Account: Zikalala**

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| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 2019  Mar | 1 | Balance | 220 000 | 2019  Feb | 28 | Salaries: Zikalala | 90 000 | | 2019  Feb |  | Drawings: Zikalala | 298 950 |  |  | Interest on capital | 106 875 | |  |  |  |  |  |  | Appropriation | 40 000 | |  |  |  |  |  |  | Balance | 282 125 | |  |  |  | **518 950** |  |  |  | **518 950** | | 2019  Mar | 1 | Balance | 282 125 |  |  |  |  | | |  | | --- | |  | |  | |

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| **3.** | **Solvency ratio:**  Total Assets: Total Liabilities  (130 000 + 68 625 + 165 000): (240 000 + 47 000)  1 533 625: 287 00  5.34:1 |
| **4.1** | **Current ratio:**  Current assets: Current liabilities  165 000: 47 000  3.51:1 |
| **4.2** | **Acid test ratio:**  Current assets - Inventories: Current liabilities  (165 000 – 28 000): 47 000  2.91:1 |
| **4.3** | **Stock turnover rate =** Cost of sales  Average trading stock  720 000  = ½ (28 000 + 24 000)  = 720 000  26 000  = 27.70 times a year |
| **5.** | Current ratio has deteriorated in 2019(3.51:1 as opposed to 4.04:1). Acid test has also declined (2.91: 1 as opposed to 3.48: 1). Stock turnover rate has improved dramatically (27.70: 1 as opposed to 8 times a year). Overall liquidity is satisfactory and the firm will have sufficient liquid assets to meet short term commitments. |
| **6.** | Debt equity ratio:  Non- current liabilities: Owners’ equity  240000: 1 246 625  0.19: 1 |
| **7.** | The firm is lowly geared and poses a low financial risk. The ratio of 0.19: 1 indicates that funding depends heavily on equity. The additional loan of R 180 000 will bring the debt equity ratio to 0.34: 1, after borrowing (420 000: 1 246 625), which still favours borrowing. Therefore, the loan should be taken. |
| **8.** | Percentage return earned by Ludwaba:  = 33.64%  Return earned by Ludwaba has improved in 2019 (33.64% as opposed to 15%) He should be satisfied because the return is higher than the return on safe alternative investments. For example, fixed deposits yield 8% p.a. Ludwaba is advised to retain his investments in the business. |
| **9.** | **Percentage return earned by LZ Trader**s  = 33.64%  Return earned by business has improved in 2019 (41.64% as opposed to 18.9%) The partners should be satisfied because the return is higher than the return on safe alternative investments. For example, fixed deposits yield 8% p.a. Partners are advised to retain their investment in the business. |