|  |
| --- |
| **REQUIRED:** |
|  | Appropriation account of LZ Traders on 28 February 2019. |
|  | Current account of D Zikalala on 28 February 2019. |
|  | Calculate the solvency ratio for 2019. |
|  | Calculate the following ratios for 2019:* Current ratio
* Acid test ratio
* Stock turnover rate
 |
|  | Comment on the liquidity position of the business on 28 February 2019. |
|  | Calculate the debt/equity ratio on 28 February 2019. |
|  | The partners are considering taking out an additional loan of R180 000 at the same interest rate to finance expansion. Do you think that it wise to take out the additional loan? |
|  | Calculate and comment on the percentage return earned by L Ludwaba on 28 February 2019. |
|  | Calculate and comment on the return earned by LZ Traders on 28 February 2019. |

**ACTIVITY 5 RATIO & INTERPRETATION**

**Information:**

1. **The following balances were extracted from the accounting records:**

|  |  |  |
| --- | --- | --- |
|  | **28 February 2019** | **28 February 2018** |
| Fixed assets (carrying value) | 1 300 000 | 1 210 000 |
| Fixed deposit | 68 625 | 72 000 |
| Current assets (including inventories) | 165 000 | 170 000 |
| Inventories (trading stock) | 28 000 | 24 000 |
| Owner’s equity  | 1 246 625 | 1 110 000 |
| Capital: L Ludwaba | 600 000 | 500 000 |
| Capital: D Zikalala | 600 000 | 750 000 |
| Current a/c: L Ludwaba | 328 750(cr) | 80 000(cr) |
| Current a/c: D Zikalala | 282 125(dr) | 220 000(dr) |
| Mortgage loan (12% p.a) | 240 000 | 300 000 |
| Current liabilities | 47 000 | 42 000 |
| Sales  | 1 500 000 | 1 200 000 |
| Cost of sales | 720 000 | 640 000 |

**Additional information for the year ended 28 February 2019:**

* Net profit for the year was R490 625.
* Annual salary for L Ludwaba was R135 000.
* Annual salary of D Zikalala R90 000.
* Interest on capital: L Ludwaba R78 750 and D Zikalala R106 875.
* Drawing for the year: L Ludwaba R135 000 and D Zikalala R????
* Partners share the remaining profit equally.

**The following financial indicators are provided:**

|  |  |  |
| --- | --- | --- |
|  | **28 February 2019** | **28 February 2019** |
| Stock turnover rate | ? | 8 times |
| Return on total capital employed | 32.4% | 38.9% |
| Debt equity ratio | ? | 0.3: 1 |
| Current Ratio | ? | 4.04:1 |
| Acid test ratio | ? | 3.48:1 |
| % return earned by L Ludwaba  | ? | 15% |
| % return earned by D Zikalala | ? | 12% |
| % return earned by LZ Traders | ? | 18.9% |
| Cost of sales | 720 000 | 640 000 |

**Source: Top Class Adapted**