 Province of the

EASTERN CAPE

EDUCATION

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

**HOME SCHOOLING SELF-STUDY**

**NOTES AND ACTIVITIES**

|  |  |  |  |  |  |  |  |  |  |  |
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| **SUBJECT** | ACCOUNTING | | **GRADE** | | 11 | **DATE** |  | | | |
| **TOPIC** | Analysis and Interpretation of Financial statements:  Consolidation | | | | | | **Term** | 2 | **Week** | 8 |
| **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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| **SUMMARY** | | |
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| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Area of Analysis** | **Description** | **Related financial indicators** | **How is it calculated-formula** | **Answer shown as/in** | | **Profitability / operating efficiency** | How efficient is the business in its normal operating activities | Gross profit on sales | Gross profit x 100 Sales 1 | % | | Gross profit on cost of sales (mark-up) | Gross profit x 100  Cost Sales | % | | Net profit after tax on sales | Net profit after tax X 100  Sales 1 | % | | Operating profit on sales | Operating profit X 100  Sales 1 | % | | Operating expenses on sales | Operating expenses X 100  Sales 1 | % | | **Liquidity** | The ability of the business to pay its immediate / short-term debts | Current ratio | Current assets : current liabilities | Ratio (x:1) | | Acid test ratio (Quick Ratio) | Receivable + cash: Current liabilities  or  (Current Assets – Inventory) | Ratio (x:1) | | 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 | | |  |
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| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Area of Analysis** | **Description** | **Related financial indicators** | **How is it calculated-formula** | **Answer shown as/in** | | **Solvency** | The ability of the business to pay off all its debts | Solvency ratio | Total assets : Total Liabilities | Ratio (x;1) | | Net assets | Total assets – Total liabilities | Rands | | **Financial risk Gearing** | To what extent is the business financed by loans compared to its own capital? | Debt/equity ratio | Non-current liabilities: partners’ equity | Ratio (x:1) | | **Return** | Are the partners earning a fair amount on their investment in the business? | Return on average partners’ equity | Net profit x 100  Ave. owners’ equity 1 | % | | Return earned by each partner | Partner’s earnings x 100  Ave. partners’ equity 1 | % | | |  |
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| **ACTIVITY 1** | | | |
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| 1.1 | **CONCEPTS** | |  |
|  | Choose a term from **COLUMN A** that matches the description in **COLUMN B.**  Write only the letter A – D next to the question number 1.1.1 – 1.1.5 in the WORK SHEET. | |  |
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|  | |  |  |  | | --- | --- | --- | | **COLUMN A** | **COLUMN B** | | | 1.1.1 Gearing | A. | Ability of the business to pay off its short-term debts | | 1.1.2 Solvency | B. | The efficiency of the business in its normal operating activities | | 1.1.3 Liquidity | C. | The benefit that the owners receive from their investment in the business | | 1.1.4 Return on equity | D | The extent to which the business is financed by borrowed capital | | 1.1.5 Profitability | E. | The ability of the business to pay off all its debts | | |  |
|  |  | |  |
| 1.2 | Nicks Traders is a retailer that sells various household cleaning materials like furniture polish, washing powder, etc. | |  |
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| **REQUIRED:** | | |  |
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| Study the information provided below and answer the following questions: | | |  |
|  | | |  |
| 1.2.1 | Calculate the following for the year ending 29 February 2020: | |  |
|  |  |  |  |
|  |  | Current Ratio |  |
|  |  | Acid Test Ratio |  |
|  |  | Debtors’ Average Collection Period (in days). |  |
|  |  | Percentage return on Average Equity for 2020 |  |
|  |  | Debt Equity ratio |  |
|  |  | |  |
| 1.2.2 | Comment on the liquidity of this businesses. Quote relevant financial indicators to justify your answer. | |  |
|  |  | |  |
| 1.2.3 | Should the partners be satisfied with the percentage return earned by Nicks Traders in 2020. Give **TWO** reasons for your answer. | |  |
|  |  | |  |
| 1.2.4 | If this business wanted to expand, should they increase their long-term liabilities? Give a reason for your answer. | |  |
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| **INFORMATION:** | | |  |
|  |  | |  |
| **A.** | The following amounts were extracted from the Financial Statements for the year ended 29 February 2020. | |  |
|  |  | |  |
|  | |  |  |  | | --- | --- | --- | |  | 28 February 2020 | 29 February 2019 | | Sales (40% on credit) | 1 485 000 |  | | Current Assets | 443 520 |  | | Current Liabilities | 201 600 |  | | Trading Stock | 261 000 |  | | Debtors Control | 54 000 | 66 600 | | Creditors Control | 162 000 | 183 600 | | Total Capital | 900 000 | 360 000 | | Capital: Webster | 540 000 | 180 000 | | Capital: Brown | 360 000 | 180 000 | | Current Account: Webster | 81 000 Cr | 45 000 Cr | | Current Account: Brown | 72 000 Cr | 18 000 Dr | | Long Term Liabilities (9.5%) | 412 200 | 315 000 | | |  |
|  |  | |  |
| **B.** | Net Profit is 11.5% of the total sales for 2020 | |  |
|  |  | |  |
| **C.** | Financial indicators for the year ending 29 February 2019 | |  |
|  |  | |  |
|  | |  |  | | --- | --- | | Current Ratio | 2.6 : 1 | | Acid Test Ratio | 0.7 : 1 | | Debtors Average Collection Period | 42 days | | Percentage return on Average Equity | 19.3% | | Debt Equity Ratio | 0.8 : 1 | | |  |
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| **ACTIVITY 2** | | | | |
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| 2.1 | Complete the following sentences by using the words from the list below. Write only the word next to the question number. | | |  |
|  |  | | |  |
|  | **RETURN; PROFITABLE; LIQUID; RISK; SOLVENT** | | |  |
|  |  | | |  |
|  | 2.1.1 | | A business which relies heavily on loans will have high … |  |
|  |  | |  |  |
|  | 2.1.2 | | A business which is able to settle its immediate debts is … |  |
|  |  | |  |  |
|  | 2.1.3 | | A business with its total assets exceeding total liabilities is … |  |
|  |  | |  |  |
|  | 2.1.4 | | A business which controls its income and expenses well will be … |  |
|  |  | | |  |
| 2.2 | The following information was extracted from the accounting records of BT Traders. The business is owned by Ben and Thando. The financial year ends on 30 September 2019. | | |  |
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|  |  |
|  |  | | |  |
| **REQUIRED:** | | | |  |
|  |  | | |  |
|  | 2.2.1 | Calculate the mark-up achieved by the business. | |  |
|  |  |  | |  |
|  | 2.2.2 | Is the business controlling its expenses effectively? Quote a figure or financial indicator to support your answer. | |  |
|  |  |  | |  |
|  | 2.2.3 | Calculate the following financial indicators for the year ended 30 September 2019. | |  |
|  |  |  | |  |
|  |  | * Current ratio | |  |
|  |  | * Stock turnover rate | |  |
|  |  | * Debtors collection period | |  |
|  |  | * Return on average partners’ equity | |  |
|  |  | * Debt equity ratio | |  |
|  |  |  | |  |
|  | 2.2.4 | Comment on the liquidity of the business. Quote THREE financial indicators to support your answer. | |  |
|  |  |  | |  |
|  | 2.2.5 | Should the partners be satisfied with their return? Quote figures to support your answer. | |  |
|  |  |  | |  |
|  | 2.2.6 | The partners want to increase the loan by an additional R400 000 to make improvements to the existing buildings.  What advice would you offer them? You must make reference to the financial indicators and figures to support your answer | |  |
|  |  | | |  |
| **INFORMATION:** | | | |  |
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| **A.** | **EXTRACT FROM THE INCOME STATEMENT FOR THE YEAR ENDED 20 SEPTEMBER 2019:** | | |  |
|  | |  |  | | --- | --- | | Sales | 2 580 000 | | Cost of sales | 1 883 210 | | Net profit | 193 636 | | | |  |
|  |  | | |  |
|  | * Credit sales for 2019 amount to R495 356 * Credit purchases for 2019 amount to R456 250 | | |  |
|  |  | | |  |
| **B.** | **EXTRACT FROM THE BALANCE SHEET:** | | |  |
|  | |  |  |  | | --- | --- | --- | |  | 2019 | 2018 | | Non-current assets | 1 069 260 | 1 042 800 | | Current assets including inventories | 439 160 | 396 360 | | Inventories | 202 560 | 197 400 | | Debtors control | 81 304 | 64 154 | | Partners’ equity | 1 090 632 | 968 996 | | Non-current liabilities | 240 000 | 300 000 | | Current liabilities | 187 788 | 120 164 | | | |  |
|  |  | | |  |
| **C.** | **FINANCIAL INDICATORS:** | | |  |
|  | |  |  |  | | --- | --- | --- | |  | 2019 | 2018 | | Gross profit on cost of sales | ? | 40% | | Operating expenses on sales | 15.1% | 19% | | Current ratio | ? | 2.2:1 | | Acid test ratio | 1.3:1 | 1.1:1 | | Stock turnover rate | ? | 7.8 times | | Debtors collection period | ? | 43 days | | Creditors payment period | 41 days | 38 days | | Return earned by business | ? | 13.1% | | Return earned by Ben | 21% | 18% | | Return earned by Thando | 20% | 23% | | Debt equity ratio | ? | 0.3:1 | | | |  |
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| **ACTIVITY 3** | | |
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| The following information was extracted from the Accounting records of Zenzele Traders, a business owned by Zonke and Anele. | | |
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| **REQUIRED:** | |  |
|  |  |  |
| 3.1 | Explain the difference between Liquidity and Solvency |  |
|  |  |  |
| 3.2 | Calculate the following financial indicators for 2019 |  |
|  |  |  |
|  | * Acid test ratio |  |
|  | * Stock turnover rate |  |
|  | * Debt equity ratio |  |
|  | * Return earned by the business |  |
|  |  |  |
| 3.3 | Refer to the expected mark-up and actual mark-up percentages and answer the following: |  |
|  |  |  |
|  | * List TWO reasons why Zenzele Traders did not achieve the expected mark-up of 60% |  |
|  | * The partners are considering increasing the mark-up to 70% on cost. List TWO factors they should consider before implementing this strategy. |  |
|  |  |  |
| 3.4 | Does the business have a liquidity problem?  Quote THREE relevant financial indicators with figures, percentages or ratios to support your answer. |  |
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| 3.5 | One of the partners is of the opinion that the Loan from Sharks Bank should be paid off as quickly as possible. What advice would you offer him? Discuss TWO relevant financial indicators to support your answer. |  |
|  |  |  |
| 3.6 | Should the partners be satisfied with the performance of the business?  Explain and quote a financial indicator to support your answer. |  |
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| **INFORMATION:** | |  |
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| **A.** | **EXTRACT FROM INCOME STATEMENT FOR THE YEAR ENDED**  **31 DECEMBER 2019:** |  |
|  | |  |  | | --- | --- | | Sales | 1051 200 | | Cost of sales | 691 200 | | Gross profit | ? | | Net profit for the year | 162 000 | |  |
|  |  |  |
| **B.** | **EXTRACT FROM THE BALANCE SHEET ON 31 DECEMBER:** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2019** | **2018** | | Non-current assets | 679 200 | 537 600 | | Inventories | 209 856 | 183 120 | | Trade and other receivables | 107 400 | 76 800 | | Cash and cash equivalents | 45 720 | 5 280 | | Partners’ equity | 768 000 | 540 000 | | Loan: Shark Bank | 204 000 | 134 400 | | Trade and other payables | 54 096 | 89 640 | |  |
|  |  |  |
| **C.** | **FINANCIAL INDICATORS:** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2019** | **2018** | | Actual mark-up | 60% | 60% | | Expected mark-up | 52% | 54% | | Current ratio | 3.1:1 | 1.5:1 | | Acid test ratio | ? | 0.47:1 | | Stock turnover rate | ? | 2.9 times | | Debtors collection period | 32 days | 35 days | | Debt equity ratio | ? | 0.25:1 | | Return on total capital employed | 36% | 39% | | Percentage return earned by the business | ? | 28.2% | | Interest on loan | 15% | 15% | |  |
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| **ACTIVITY 4** | | | |
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| Golden Traders is a partnership business owned by partners David and Moses.  The financial year ended on 29 February 2020. | | | |
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| **REQUIRED:** | | |  |
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| 4.1 | Calculate the following: | |  |
|  |  | |  |
|  | 4.1.1 | The total current liabilities |  |
|  | 4.1.2 | Percentage return earned by David |  |
|  | 4.1.3 | Debt equity ratio |  |
|  | 4.1.4 | Acid-test ratio |  |
|  |  | |  |
| 4.2 | Comment on the liquidity of the business.  Quote TWO financial indicators (with figures) in your answer. | |  |
|  |  | |  |
| 4.3 | Do you think that David is satisfied with his return on investment? Explain. Quote TWO relevant financial indicators (with figures) to support your answer. | |  |
|  |  | |  |
| 4.4 | The partners want to expand the existing business and are considering increasing the loan. What advice would you offer them? Support your answer by making reference to TWO financial indicators (with figures). | |  |
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| **INFORMATION:** | | |  |
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| **A.** | **GENERAL LEDGER OF GOLDEN TRADERS** | |  |
|  | **APPROPRIATION ACCOUNT** | |  |
|  | |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | 2020  Feb 29 | Salary: David | 165 000 | 2020  Feb 29 | Profit and loss | 491 040 | |  | Salary: Moses | 200 640 |  |  |  | |  | Interest on capital: David | 46 200 |  |  |  | |  | Interest on capital: Moses | 30 800 |  |  |  | |  | Bonus: Moses | 13 200 |  |  |  | |  | Current account: David | 21 120 |  |  |  | |  | Current account: Moses | 14 080 |  |  |  | | |  |
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| **B.** | **BALANCES AND OTHER INFORMATION:** | |  |
|  | |  |  |  | | --- | --- | --- | |  | 29 Feb 2020 | 28 Feb 2019 | | Capital: David | 577 500 | 440 000 | | Capital: Moses | 385 000 | 440 000 | | Current account: David | 10 010 (Dr) | 16 940 | | Current account: Moses | 11 660 | 13 420 | | Loan: Mia Bank (11% p.a.) | 440 000 | 440 000 | | Trade debtors | 300 520 | 156 200 | | Cash and cash equivalents | 40 480 | 40 260 | | Trading stock | 194 700 | 55 000 | | Current liabilities | ? | 139 700 | | Current ratio | 2.5:1 | 1.8:1 | | Acid test ratio | ? | 1.2:1 | | Debt equity ratio | ? | 0.5:1 | | Return on total capital employed | 43% | 37% | | Return earned by David | ? | 48% | | Return earned by Moses | 61% | 57% | | |  |
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| **CLASS TEST** | | | | |
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| **ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS** | | | **40 marks** | |
|  | | | | |
| **QUESTION 1** | | | |  |
|  |  | | |  |
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| **1.1** | **CONCEPTS** | | |  |
|  |  | | |  |
|  | Indicate whether the following statements are TRUE or FALSE. Write only True or False next to the question number 1.1.1 – 1.1.4 in the WORK SHEET. | | |  |
|  |  | | |  |
|  | 1.1.1 | Solvency is the ability of the business to settle its current liabilities. | |  |
|  |  |  | |  |
|  | 1.1.2 | Profitability is the effective management of expenses. | |  |
|  |  |  | |  |
|  | 1.1.3 | Creditors’ payment period is the period between 60 – 90 days that creditors should be paid. | |  |
|  |  |  | |  |
|  | 1.1.4 | Stock holding period is the amount of times stock is replaced. | |  |
|  |  | (4x1) | | (4) |
|  |  |  | |  |
| 1.2 | **COASTAL TRADERS** | | |  |
|  |  |  | |  |
|  | You are provided with information relating to Coastal Traders for the year ended 31 October 2019, together with comparative figures for 2018. | | |  |
|  |  | | |  |
|  | **REQUIRED:** | | |  |
|  |  | | |  |
|  | Calculate the following financial indicators for 31 October 2019 | | |  |
|  |  | | |  |
|  | * Average creditors payment period | | | (5) |
|  | * Percentage operating profit on sales | | | (3) |
|  | * Debt equity ratio | | | (3) |
|  | * Solvency ratio | | | (5) |
|  | * Percentage return on average partners’ equity | | | (5) |
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| **INFORMATION:** | | | |  |
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| **A.** | **EXTRACT FROM THE INCOME STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2019:** | | |  |
|  | |  |  |  | | --- | --- | --- | |  | **2019** | **2018** | | Sales (50% credit) | 2 136 000 | 1 968 000 | | Cost of sales | 1 335 000 | 1 230 000 | | Operating expenses | 384 480 | 393 600 | | Operating profit | 427 200 | 295 200 | | Net profit | 270 000 | 196 800 | | | |  |
|  |  | | |  |
| **B.** | **EXTRACT FROM BALANCE SHEET AS AT 31 OCTOBER 2019:** | | |  |
|  | |  |  |  | | --- | --- | --- | |  | **2019** | **2018** | | Non-current assets | 948 000 | 816 000 | | Current assets | 672 000 | 540 000 | | Inventory | 384 000 | 324 000 | | Trade debtors | 180 000 | 120 000 | | Partners’ equity | 1 020 000 | 780 000 | | Non-current liabilities | 408 000 | 600 000 | | Current liabilities | 240 000 | 288 000 | | Trade creditors | 192 000 | 288 000 | | Bank overdraft | 48 000 | - | | | |  |
|  |  | | |  |
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| **1.3** | **COMPARISON OF FINANCIAL INDICATORS OF TWO BUSINESSES** | | |  |
|  |  | | |  |
|  | Mr P. Basil is considering investing in one of the businesses listed below, namely, LUNDI Traders and JIKA Traders  Both businesses sell I.T. equipment and require the same capital layout.  Use your expertise to help him decide which business to invest in. | | |  |
|  |  | | |  |
|  | **REQUIRED:** | | |  |
|  |  | | |  |
|  | 1.3.1 | Mr Basil is of the opinion that LUNDI Traders has a better profitability and operating efficiency. Quote TWO financial indicators with figures to support Mr Basil’s opinion. | | (4) |
|  |  |  | |  |
|  | 1.3.2 | Mr Basil feels that JIKA Traders has a better liquidity position. Do you agree? Quote THREE relevant financial indicators and figures to support your opinion. | | (7) |
|  |  |  | |  |
|  | 1.3.3 | Which business would you advise Mr Basil to invest in? Quote one relevant financial indicator together with figures to support your answer. | | (4) |
|  |  |  | |  |
|  | **INFORMATION FOR THE FINANCIAL YEAR ENDED 2019:** | | |  |
|  |  |  | |  |
|  |  |  | |  |
|  | |  |  |  | | --- | --- | --- | |  | **JIKA Traders** | **LUNDI Traders** | | Current ratio | 0.9:1 | 2.1:1 | | Acid test ratio | 1.1:1 | 0.5:1 | | Average debtors collection period | 63 days | 30 days | | Average creditors payment period | 28 days | 60 days | | Percentage operating expenses on sales | 20.8% | 12% | | Percentage operating profit on sales | 16.2% | 20.6% | | Percentage gross profit on cost of sales | 75% | 60% | | Interest on fixed deposit | 8% | 8% | | Percentage return on average partners’ equity | 12% | 21.4% | | Debt equity ratio | 0.6:1 | 0.2:1 | | | |  |
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