 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 of Grade 10 and 11  | **Term**  | 2 | **Week** | 7 |
| **TIME ALLOCATION** | 1 Week  |

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| **TIPS TO KEEP HEALTHY** |
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| 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.**  |

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| **INSTRUCTIONS** | See requirements per activity |
| **RESOURCES** | **USE YOUR TEXTBOOK(S) & PREVIOUS ACTIVITIES** |

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| **TIPS FOR ANSWERING QUESTIONS** |  |
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| Sometimes the question will not specify the financial indicator you have to calculate, for example it will require you to comment on liquidity/ profitability of the business, etc. |  |
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| Steps to follow: |  |
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| 1. | Identify the appropriate financial indicators, which fit that particular category. |  |
|  |  |  |
| 2. | If the ratio or financial indicator is not given, calculate it using the relevant formula. (Note that even though you will be given the formulae sheet in the exam it is important that you know the formula). |  |
|  |  |  |
| 3. | Know where to get information to be used when calculating. |  |
|  |  |  |
| 4. | Compare your results with the previous year of the same business / other businesses in the same industry / targets that were set by the business. |  |
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| 5. | Comment on your findings by making short concise statements. |  |
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| **ACTIVITY 1**  |
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| You are provided with information from the records of Zwelethemba Traders (partners Zweli and Themba) for the financial year ended 30 April 2019. |
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| **REQUIRED:** |  |
|  |  |  |
| 1.1. | Calculate the following: |  |
|  |  |  |
|  | 1.1.1 | Percentage mark-up on cost |  |
|  | 1.1.2 | Percentage operating expenses on sales |  |
|  | 1.1.3 | Total earnings of Zweli |  |
|  | 1.1.4 | The percentage return earned by Themba |  |
|  | 1.1.5 | The debt equity ratio for 2019 |  |
|  |  |  |  |
| 1.2 | Comment on the liquidity of the business. Quote and explain TWO financial indicators (with figures) in your answer. |  |
|  |  |  |
| 1.3 | Were the partners justified in increasing the loan? Explain. Quote TWO financial indicators, with figures, in your explanation. |  |
|  |  |  |
| 1.4 | Zweli is not happy with his return on Investment. Explain why you think he feels this way. Quote figures. |  |
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| **INFORMATION:** |  |
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| **A.** | **EXTRACT FROM THE INCOME STATEMENT ON 30 APRIL 2019:** |  |
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| --- | --- |
| Sales  | 5 108 400 |
| Gross profit | 2 012 400 |
| Operating expenses | 1 277 100 |
| Net profit for the year | 864 000 |

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| **B.** | **EXTRACT FROM THE PARTNERS’ CURRENT ACCOUNTS ON** **30 APRIL 2019:** |  |
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| --- | --- | --- |
|  | **ZWELI** | **THEMBA** |
| Total primary distribution | ? | 335 484 |
| Share in the remaining profit | 141 624 | 70 812 |
| Drawings | 237 600 | 1. 000
 |

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| **C.** | **EXTRACT FROM THE BALANCE SHEET ON 30 APRIL:** |  |
|  |

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| Partners’ Equity | 1 484 760 | 1 005 960 |
| * Capital
 | 1 170 000 | 1 062 000 |
| * Current Account
 | 314 760 | (56 040) |
| Loan: Simi Bank | 890 856 | 102 000 |
| Current Assets | 717 696 | 529 920 |
| * Trading Stock
 | 331 680 | 240 960 |
| * Trade and other receivables
 | 346 656 | 264 720 |
| * Cash and cash equivalents
 | 39 360 | 24 240 |
| Current Liabilities | 512 640 | 441 600 |
| * Trade and other payables
 | 394 032 | 407 088 |
| * Short-term portion of loan
 | 118 608 | 34 512 |

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| **D.** | **DETAILS OF PARTNER’S EQUITY ON 30 APRIL:** |  |
|  |  |  |
|  |

|  |  |  |
| --- | --- | --- |
|  | **ZWELI** | **THEMBA** |
|  | 2019 | 2018 | 2019 | 2018 |
| Capital  | 780 000 | 535 000 | 642 000 | 420 000 |
| Current Accounts | 243 264 | 22 300 | 71 496 | (82 800) |
|  | 1 023 264 | 557 300 | 461 496 | 337 200 |

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| **E.** | **FINANCIAL INDICATORS ON 30 APRIL:** |  |
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|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| Current ratio | 1.4 : 1 | 1.2 : 1 |
| Acid test ratio | 0.8 : 1 | 0.7 : 1 |
| Debt equity ratio | ? | 0.1 : 1 |
| Return on Investment: Zweli | 54% | 46% |
| Return on Investment: Themba | ? | 81% |
| Return on Capital Employed | 69% | 43% |
| Interest rate on loans | 13% | 13% |

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| **ACTIVITY 2**  |
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| **REQUIRED:** |  |
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| Calculate and comment on the following financial indicators for 2020: |  |
|  |  |  |
| 2.1 | Calculate the following financial indicators on 30 June 2019: |  |
|  |  |  |
|  | 2.1.1 | Acid test ratio |  |
|  | 2.1.2 | Debt equity ratio |  |
|  | 2.1.3 | Percentage return on average partners equity |  |
|  |  |  |
| 2.2 | The partners are pleased that the liquidity of the partnership has improved. Quote THREE financial indicators to support their statement. |  |
|  |  |  |
| 2.3 | The partners decided to increase the loan during the current financial year. Quote TWO financial indicators that are relevant to their decision.Explain why this was a wise decision or not. |  |
|  |  |  |
| 2.4 |  Should the partners be satisfied with the percentage return on average partners equity? State TWO points to support your answer. |  |
|  |  |  |
| **INFORMATION:** |  |
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| **A.** | The net profit for the year was R920 250. |  |
|  |  |  |
| **B.** | **EXTRACT FROM THE BALANCE SHEET ON 30 JUNE:** |  |
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| --- | --- | --- |
|  | **2019** | **2018** |
| Fixed Assets (carrying value) | 8 710 475 | 7 341 650 |
| Fixed Deposit (Keri Bank) | 125 000 | 190 000 |
| CURRENT ASSETS | 507 500 | 228 000 |
| Inventories  | 282 000 | 140 750 |
| Trade and other receivables | 123 000 | 83 500 |
| Cash and cash equivalents | 102 500 | 3 750 |
| PARTNERS EQUITY | 5 025 375 | 4 770 000 |
| Capital: Sizwe | 2 500 000 | 2 000 000 |
| Capital: Chwayita | 2 500 000 | 2 500 000 |
| Current Account: Sizwe | 10 375 | 150 000 |
| Current Account: Chwayita | 15 000 | 120 000 |
| Loan: PR Bank | 4 000 000 | 2 250 000 |
| Trade and other payables | 317 600 | 700 000 |
| Bank overdraft | - | 79 300 |

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| **C.** | **FINANCIAL INDICATORS ON 30 JUNE:** |  |
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| --- | --- | --- |
|  | **2019** | **2018** |
| Current ratio | 1.6 : 1 | 0.3 : 1 |
| Acid test ratio | ? | 0.1 : 1 |
| Stock turnover rate | 5.5 times | 10 times |
| Debtors collection period | 36 days | 43 days |
| Creditors payment period | 63 days | 63 days |
| Solvency ratio | 2.2 : 1 | 2.2 : 1 |
| Debt equity ratio | ? | 0.1 : 1 |
| Return on total capital employed | 8.2% | 9.5% |
| Interest rate on fixed deposit | 8% | 8% |
| Return on partners equity | ? | 6.2% |
| Interest rate on loans | 12% | 12% |

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| **ACTIVITY 3**  |
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| You are provided with information of Kei Curios, a business owned by Nkosi Tshabalala and Zama Mfeya. This business sells various craft items, such as woven mats and beaded jewellery, made by the local community, to tourists visiting the area. ROUND ALL ANSWERS TO ONE DECIMAL PLACE, WHERE NEEDED. |
|  |  |  |
| **REQUIRED:** |  |
|  |  |  |
| 3.1 | Calculate the net profit for the year by drafting the Appropriation account. |  |
|  |  |  |
| 3.2 | Calculate the mark-up percentage achieved by Kei Curios. |  |
|  |  |  |
| 3.3 | Do you feel that it is ethical for Tshabalala and Mfeya to earn such large income while the members of the community get paid very little for the craft works that they provide to the shop? Give TWO reasons for your answer. |  |
|  |  |  |
| 3.4 | Is the business solvent? Do the necessary calculation and explain your decision. |  |
|  |  |  |
| 3.5 | Calculate the following: |  |
|  |  |  |
|  | 3.5.1 | Partners’ equity on 29 February 2020. |  |
|  | 3.5.2 | The return on average equity for the business for 2020. |  |
|  | 3.5.3 | The interest rate on the mortgage loan. |  |
|  |  |  |
| 3.6 | Comment on the business return and gearing for 2020. Quote figures to support your answer. |  |
|  |  |  |
| **INFORMATION:** |  |
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| **A.** | **EXTRACT FROM THE INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2020** |  |
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| --- | --- |
| Sales  | 2 095 950 |
| Cost of Sales | 1 335 000 |
| Interest on Loan | 47 120 |

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| **B.** | **EXTRACT FROM THE BALANCE SHEET AS AT 29 FEBRUARY 2020:** |  |
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|  |  |
| --- | --- |
| Non-current Assets | 1 530 330 |
| Current Assets ( including Inventory) | 740 087 |
| Capital: Tshabalala | 862 500 |
| Capital: Mfeya | 645 000 |
| Current Account: Tshabalala | 1 256 DR |
| Current Account: Mfeya | 14 945CR |
| Salary: Tshabalala | 120 000 |
| Salary: Mfeya | 144 000 |
| Interest on Capital: Tshabalala | 27 750 |
| Interest on Capital: Mfeya | 22 500 |
| Mortgage Loan | 588 993 |
| Current Liabilities | 160 235 |

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| **C.** | **ADDITIONAL INFORMATION:** |  |
|  | * Each partner’s Current Account was debited with R68 606 when calculating the amount due to them for secondary distribution.
 |  |
|  | * Partners’ equity on 28 February 2019 was R1 442 493.
 |  |
|  | * The return earned on average equity was 13.5% in 2019.
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| **ACTIVITY 4**  |
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| The information provided relates to ST Traders. The business is a partnership owned by Sam and Tom. The financial year ended on 29 February 2020. |
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| **REQUIRED:** |  |
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| 4.1 | Complete the Current Account note to the Balance Sheet.(Refer to point B) |  |
|  |  |  |
| 4.2 | Calculate the following financial indicators: |  |
|  |  |  |
|  | 4.2.1 | Debt equity ratio |  |
|  | 4.2.2 | Acid test ratio |  |
|  | 4.2.3 | Percentage return on investment earned by Sam. |  |
|  |  |  |
| 4.3 | Should Sam be satisfied with his return on investment? Explain and quote relevant figures or financial indicators to support your answer. |  |
|  |  |  |
| 4.4 | Tom was concerned that the percentage net profit on sales decreased although the operating profit on sales has improved. Provide him with an explanation. Quote appropriate figures in your explanation. |  |
|  |  |  |
| 4.5 | Comment on the liquidity position of the business. Quote TWO financial indicators (with figures) in your response. |  |
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| 4.6 | Sam wants to increase the loan by an additional R150 000 to make improvements to the existing buildings. What advice would you offer him? You must make reference to financial indicators and figures to support your advice. |  |
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| **INFORMATION:** |  |
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| **A.** | **EXTRACT FROM THE TRIAL BALANCE ON 28 FEBRUARY 2019:** |  |
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| --- | --- |
| Capital: Sam | 900 000 |
| Capital: Tom | 600 000 |
| Current Account: Sam (1 March 2018) | 8 100 |
| Current Account: Tom (1 March 2018) | 11 760 (Dr) |
| Drawings: Sam | ? |
| Drawings: Tom | ? |
| Loan: Drago Bank | 984 000 |
| Bank | 9 300(Cr) |
| Cash float | 1 560 |
| Inventories | 34 344 |
| Trade and other receivables | 45 000 |
| Trade and other payables | 38 760 |
| Sales | 1 344 000 |
| Profit and loss (Net profit for the year) | ? |

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| **B.** | **PARTNERS’ EARNINGS AND DRAWINGS:** |  |
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|  | * Sam earns a salary of R122 400 per year. Tom earns 5% more than Sam.
 |  |
|  | * Interest on capital is calculated at 8% p.a. Tom’s interest amounts to R48 000. Note that Sam increased his capital by R30 000 on 1 December 2018. This was recorded accordingly.
 |  |
|  | * Tom is entitled to a production bonus equal to 1.5% of turnover.
 |  |
|  | * The remaining profit or loss is shared between Sam and Tom in the ratio 3:2 respectively. The remaining profit earned by Tom was R9 000 after all adjustments were done.
 |  |
|  | * Tom also withdrew 60% of his total earnings for this financial year.
 |  |
|  | * Sam ended with a credit balance of R39 060 on his current account.
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| **C.** | **THE FOLLOWING FINANCIAL INDICATORS WERE CALCULATED:** |  |
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| --- | --- | --- |
|  | **2019** | **2018** |
| Operating profit on sales | 36.6% | 34% |
| Percentage net profit on sales | 30.6% | 33% |
| Current ratio | 1.7 : 1 | 1.98 : 1 |
| Acid test ratio | ? | 1.1 : 1 |
| Stock turnover rate | 14.6 times | 15 times |
| Debt equity ratio | ? | 0.56 : 1 |
| Return on partners’ equity | 26.8% | 27.2% |

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| **ACTIVITY 5**  |
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| The information below was obtained from the financial statements of Mthatha Traders. The business is owned by two partners, Yonela and Yolisa. |
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| **REQUIRED:** |  |
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| 5.1 | Calculate the missing amounts on the table provided (denoted by A to G) |  |
|  |  |  |
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| --- | --- | --- | --- |
|  | **YONELA** | **YOLISA** | **TOTAL** |
| Partners’ salaries | 129 600 | 92 400 | 222 000 |
| Interest on Capital | A | 15 000 |  |
| Bonus | - | E |  |
| Total primary distribution | B | D | C |
| Share in the remaining profit | F | G | 29 640 |
| Net profit for the year |  |  | 309 340 |

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| 5.2 | Calculate the following financial indicators: |  |
|  |  |  |
|  | 5.2.1 | Debt equity ratio |  |
|  | 5.2.2 | Percentage return earned by Yolisa. (Use the average equity) |  |
|  |  |  |  |
| 5.3 | Yonela feels that the business is in a sound liquidity position. Explain why you think he feels this way. Quote TWO financial indicators (with figures) to motivate your answer. |  |
|  |  |  |
| 5.4 | Yolisa is not satisfied with her percentage return on equity compared to that of Yonela. Give ONE possible reason why she feels this way. Quote figures to motivate your answer. |  |
|  |  |  |
| 5.5 | The business wants to expand their operations and have discussed extending the existing building. This venture is expected to cost R200 000. By looking at the financial statements and the financial indicators, suggest different ways in which this project can be financed. Give TWO points. |  |
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| **INFORMATION:** |  |
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| **A.** | **INFORMATION FROM THE BALANCE SHEET ON 28 FEBRUARY:** |  |
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| --- | --- | --- |
|  | **2019** | **2018** |
| Fixed Assets (Carrying value) | 845 320 | 675 040 |
| Investments (11%) | 320 000 | 60 000 |
| Current Assets | 227 120 | 242 100 |
|  |  |  |
| **TOTAL ASSETS** | **1 392 440** | **977 140** |
|  |  |  |
| Owners’ Equity | 1 069 160 | 603 020 |
| Capital | 950 000 | 650 000 |
| Current Accounts | 119 160 | (46 980) |
| Non-current Liabilities | 189 680 | 277 280 |
| Current Liabilities | 133 600 | 96 840 |
|  |  |  |
| **TOTAL EQUITY AND LIABILITIES** | **1 392 440** | **977 140** |

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| **B.** | **CAPITAL:** |  |
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| --- | --- | --- |
|  | **YONELA** | **YOLISA** |
| Balance on 1 March 2018 | 400 000 | 250 000 |
| Additions/ (withdrawals) | 150 000 | 150 000 |
| Balance on 28 February 2019 | 550 000 | 400 000 |

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| **C.** | **SUMMARY OF INFORMATION FROM THE CURRENT ACCOUNTS:** |  |
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|  | 1. Current account balances:
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| --- | --- | --- |
|  | **YONELA** | **YOLISA** |
| Opening balance (1 March 2018) | (49 380) | 2 400 |
| Closing balance (28 February 2019) | 34 080 | 85 080 |

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|  | 1. Salary allowances for the year ended 28 February 2019
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| --- | --- |
| Yonela | 129 600 |
| Yolisa | 92 400 |

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|  | 1. Partners’ drawings for the year ended 28 February 2019:
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|  |

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| --- | --- |
| Yonela | 94 800 |
| Yolisa | 48 400 |

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|  |  |  |
|  | 1. Net profit from the Income Statement: R309 340
 |  |
|  | 1. Profit after deducting the total primary distribution of the partners: R29 640.
 |  |
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| **D.** | **ADDITIONAL INFORMATION:** |  |
|  |  |  |
|  | * Interest on capital is 6% p.a. on capital balances.

Yonela increased his capital on 1 May 2018 and Yolisa increased her capital on 28 February 2019.* Yolisa (who is the sales manager) is entitled to an annual bonus.
* Profits and losses are shared in the ratio of their capital balances at the end of the year.
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| **E.** | **FINANCIAL INDICATORS FOR 2019 (WITH COMPARATIVES):** |  |
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| --- | --- | --- |
|  | **2019** | **2018** |
| Current ratio | 1.7 : 1 | 2.5 : 1 |
| Acid test ratio | 1.1 : 1 | 1.8 : 1 |
| Debtors collection period | 31 days | 42 days |
| Creditors payment period | 76 days | 82 days |
| Debt equity ratio | ? | 0.45 : 1 |
| Return on total capital employed | 28% | 22.4% |
| Percentage return earned by Yonela | 77.5% | 72.3% |
| Percentage return earned by Yolisa | ? | 54.4% |

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