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| Province of the  EASTERN CAPE  EDUCATION  **DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**  **HOME SCHOOLING SELF-STUDY**  **MARKING GUIDELINE**   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **SUBJECT** | | ACCOUNTING | **GRADE** | 11 | **DATE** |  | | | | | **TOPIC** | Analysis and Interpretation of Financial statements: Consolidation of Grade 10 and 11 | | | | | **Term** | 2 | **Week** | 7 | |

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| **WORKSHEET 1** | | | | | |  |
| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 7 | |

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| **ACTIVITY 1** | |  |  |  |  |
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| * 1. **Calculate the following:** |
| * + 1. **Percentage mark-up on cost**   2 012 400 x 100  (5 108 400 – 1 012 400) 1  = 2 012 400 x 100  3 096 000 1  = 65% |
| * + 1. **Percentage operating expenses on sales**   1 277 100 x 100  5 108 400 1    = 25% |
| * + 1. **Total earnings of Zweli**   864 000 – (335 484 + 70 812)  = 864 000 – 406 296  = 457 704 |
| * + 1. **The percentage return earned by Themba**   (335 484 + 70 812) x 100  ½ (337 200 + 461 496)  = 406 296 x 100  399 348 1  = 101.7% |
| **1.1. 5 The debt equity ratio for 2019**  890 856 : 1 484 760  = 0.6 : 1 |

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| * 1. **Comment on the liquidity of the business. Quote and explain TWO financial indicators (with figures) in your answer.** |
| The current ratio improved from 1,2 : 1 to 1,4 : 1  The acid test ratio improved from 0,7 : 1 to 0,8 : 1    The business is experiencing liquidity problems – it does not have sufficient cash to meet short-term obligations. There is some evidence of stock-piling |

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| * 1. **Were the partners justified in increasing the loan? Explain. Quote TWO financial indicators, with figures, in your explanation.** |
| The debt equity ratio moved from 0,1 : 1 to 0,6 : 1 (refer 1.1)  The business is making greater use of borrowed capital (loans).  An improvement on the return on capital employed (43% to 69%) shows that the business is making effective use of the loan to improve profitability.  Interest on loan is 13% - positive gearing |

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| * 1. **Zweli is not happy with his return on Investment. Explain why you think he feels this way. Quote figures.** |
| Zweli’s return has increased from 46% to 54%.  Themba’s return increased from 81% to 101,7%.    He is probably unhappy because his return is almost ½ of Themba’s.  He is the partner that has contributed more capital (780 000: 642 000).  He manages his Current Account better (243 264 : 71 496). |

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| **WORKSHEET 2** | | | | | |  |
| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 7 | |

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| **ACTIVITY 2** | |  |  |  |  |
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| * 1. **Calculate the following financial indicators on 30 June 2019:** |
| **2.1.1 Acid test ratio**  (507 500 – 282 000) : 317 600 OR (123 000 + 102 500) : 635 200  = 225 500 : 317 600  = 0.7 : 1 |
| * + 1. **Debt equity ratio**   4 000 000 : 5 025 375  = 0.8 : 1 |
| * + 1. **Percentage return on average partners equity**   920 250 x 100  ½ (5 025 375 + 4 770 000) 1  = 920 250 x 100  4 897 688 1  = 18.8% |

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| **2.2 The partners are pleased that the liquidity of the partnership has improved.**  **Quote THREE financial indicators to support their statement.** |
| Current ratio has improved / increased from 0.3:1 to 1.6:1  Acid test ratio has improved / increased from 0.1:1 to 0.7:1  Debtors collection period has improved / decreased from 43 days to 36 days  Debtors are paying 7 days sooner than last year. |

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| **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.** |
| Debt equity ratio increased from 0.1:1 to 0.8:1 which indicates a higher risk  Return on total capital employed (ROTCE) of 8.2% is less than the interest rate on loan of 12% which indicates negative gearing.  It was not a good idea to take the loan. |

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| **2.4 Should the partners be satisfied with the percentage return on average**  **partners equity? State TWO points to support your answer.** |
| Yes  The percentage return on average partners equity increased from 6.2% to 18.8%  This return is greater than alternative investments, e.g Fixed deposit which yields 9%. |

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| **WORKSHEET 3** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 7 | |

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| **ACTIVITY 3** | |  |  |  |  |
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| * 1. **Calculate the Net Profit for the year by drafting the Appropriation account in**   **the General Ledger.** |
| **FINAL ACCOUNTS SECTION**  **APPRORIATION ACCOUNT**   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | 2019  Feb. | 28 | Salary: Tshabalala | GJ | 120 000 | 2019  Feb. | 28 | Profit and loss | GJ | 177 038 | |  |  | Salary: Mfeya | GJ | 144 000 |  |  | Current account: Tshabalala | GJ | 68 606 | |  |  | Interest on capital: Tshabalala | GJ | 27 750 |  |  | Current account: Mfeya | GJ | 68 606 | |  |  | Interest on capital: Mfeya | GJ | 22 500 |  |  |  |  |  | |  |  |  |  | 314 250 |  |  |  |  | 314 250 | |

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| * 1. **Calculate the mark-up percentage achieved by Kei Curios.** |
| (2 092 950 – 1 335 000) x 100  1 335 000 1  = 757 950 x 100  1 335 000 1  = 56.7% |

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| * 1. **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.** |
| Yes   * The local people can earn an income from their craft * The business creates employment for the local population * Tourists are more likely to stop at large, formal shops than at the small stalls on the side of the road. * Any other logical answer   OR  No   * Making crafts is time consuming and difficult. The people deserve to get paid more for their pieces * They are merely selling the items and should not be profiting so greatly from the hard work of others. * Any other logical answer. |

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| * 1. **Is the business solvent? Complete the necessary ratio and explain your decision.** |
| (1 530 330 + 740 087) : (588 993 + 160 235)  = 2 270 417 : 749 228    = 3 : 1  Yes    Total assets of the business are 3 times more than the liabilities of the business. |

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| * 1. **Calculate the following:** |
| * + 1. **Partners’ equity on 29 February 2020.**   (862 500 -1 256) + (645 000 +14 945)  = 861 244 + 659 945  = 1 521 189 |
| **3.5.2 The return on average equity for the business for 2020.**  177 038 x 100  ½ (1 521 189 + 1 442 493) 1  = 177 038 x 100  1 481 841 1  = 11.9% |
| * + 1. **The interest rate on the mortgage loan.**   47 120 x 100  588 993 1  = 8% |

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| * 1. **Comment on the business’s return and gearing for 2020. Quote figures to support your answer.** |
| * The return on average equity has decreased from 13.5% in 2019 to 11.9% in 2020. * The return is however still higher than many other investment options. * The business is positively geared as the return on average equity of 11.9% is higher than the interest rate on the loan of 8%. |

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| **WORKSHEET 4** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 7 | |

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| **ACTIVITY 4** | |  |  |  |  |
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| **4.1 Complete the Current Account note to the Balance Sheet**  **(Refer to point B)** |
| **CURRENT ACCOUNT NOTE**   |  |  |  |  | | --- | --- | --- | --- | |  | **SAM** | **TOM** | **TOTAL** | | Salaries | 122 400 | 128 520 | 250 920 | | Interest on capital | 70 200 | 48 000 | 118 200 | | **Bonus** | **-** | **20 160** | **20 160** | | **Primary distribution of profits** | **192 600** | **196 680** | **389 280** | | Final distribution of profits | 13 500 | 9 000 | 22 500 | | **Net profit as per Income Statement** | **206 100** | **205 680** | **411 780** | | Drawings | (175 140) | (123 408) | (298 548) | | **Retained income for the year** | **30 960** | **82 272** | **113 232** | | Balance at the beginning of the year | 8 100 | (11 760) | (3 660) | | **Balance at end of the year** | **39 060** | **70 512** | **109 572** | |

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| * 1. **Calculate the following financial indicators:** |
| **4.2.1 Debt equity ratio**  984 000 : (900 000 + 600 000 + 109 572)  = 984 000 : 1 609 572  = 0.6 : 1 |
| * + 1. **Acid test ratio**   (1 560 + 45 000) : (38 768 + 9 300)  = 46 560 : 48 068  = 0.97 : 1 |

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| * + 1. **Percentage return on investment earned by Sam.**   206 100 x 100  ½ (870 000+900 000 + 8 100 + 39 060) 1  = 206 100 x 100  908 580 1    = 22.7% |

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| **4.3 Should Sam be satisfied with his return on investment?**  **Explain and quote relevant figures or financial indicators to support your**  **answer.** |
| Yes   * His rate of return is better than interest rates on alternative investments * His rate of return could be better than the previous year.   No   * His rate of return is lower than the return on partners equity which is 26.8% * Sam needs to compare his return to that of Tom |

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| **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.** |
| * Operating profit on sales increased from 34% to 36.6%. This indicates good management of operating expenses or could denote an increase in sales or gross profit. * Net profit on sales decreased from 33% to 30.6%. This difference is because of management of debt. Possibly too much interest was paid on borrowed funds. |

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| **4.5 Comment on the liquidity position of the business.**  **Quote TWO financial indicators (with figures) in your response.** |
| * The current ratio decreased from 1.98 : 1 to 1.7 : 1 * The acid test ratio decreased from 1.1 : 1 to 0.97 : 1 * Stock turnover rate dropped from 15 times a year to 14.6 times a year. * All ratios show a negative trend. Although the drops are not very significant amounts, it could be of concern that we are holding too much stock on hand (therefore buying less) * The cash management is also bad (overdraft) |

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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.** |
| The debt equity ratio indicates high risk (0.6:1) which is an increase from the previous year (0.56:1). This means that the business is not making efforts to reduce the loan. With an additional R150 000, the debt equity ratio will move to 0.72:1 (assuming equity remains unchanged). This will not be a wise decision unless it can be proven that the loan is contributing to a good return on total capital employed (positive gearing). |

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| **WORKSHEET 5** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 7 | |

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| **ACTIVITY 5** | |  |  |  |  |
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| **5.1 Calculate the missing amounts on the table provided (denoted by A to G)** |
| 1. 400 000 x 6/100 x 2/12 = 4 000   550 000 x 6/100 x 10/12 = 27 500  31 500   1. 129 600 + 31 500 = 161 100 2. 309 340 – 29 640 = 279 700 3. 279 700 – 161 100 = 118 600 4. 118 600 – (92 400 + 15 000) = 11 200 5. 550 000 / 950 000 x 29 640 = 17 160 6. 400 000 / 950 000 x 29 640 = 12 480 |

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| * 1. **Calculate the following financial indicators:** |
| **5.2.1 Debt equity ratio**  189 680 : 1 069 160  = 0.2 : 1 |
| * + 1. **Percentage return earned by Yolisa. (Use the average equity)**   (118 600 + 12 480) x 100  1/2 (250 000 + 2 400 + 400 000 + 85 080) 1  = 131 080 x 100  368 740 1  = 35.5% |

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| **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.** |
| Current ratio:  Although it has decreased from 2.5 : 1 to 1.7 : 1, it still indicates that there is adequate short term assets to cover current liabilities. The business was able to turn over stock more effectively in the current year.  Acid test ratio:  Although it declined from 1.8 : 1 to 1.1 : 1, it still indicates that short term debts can be paid.  Debtors collection period:  Improved from 42 days to 31 days. Debtors are paying close to 30 days that is normally allowed. This indicates an improvement in the collection policy and thereby on cash management.  Do not accept Creditors payment period as the business is paying creditors too fast and do not make use of the 90 days period |

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| **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.** |
| * Yolisa manages her current account better (always reflecting a positive balance) R 85 080 against R34 080 * Yonela had a big debit balance on his current account (R49 380). This accounts for a better percentage return when calculating average equity. * Yonela also draws large amounts which also affects the current account balance. His drawings is almost double that of Yolisa ( R94 800 compared to R48 400) |

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| **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.** |
| * The partners have increased their capital contribution by R300 000. * They increased the investment by R260 000 with an interest rate of only 11% * They repaid a large portion of the loan thereby improving the debt equity ratio. * Their interest on loan is only 12% but the return on capital employed is 28%. |