 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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| 2019Feb | 28 | Salaries: Lucwaba | 135 000 | 2019Feb | 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** |

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**Current Account: Zikalala**

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| 2019Mar | 1 | Balance | 220 000 | 2019Feb | 28 | Salaries: Zikalala | 90 000 |
| 2019Feb |  | Drawings: Zikalala | 298 950 |  |  | Interest on capital | 106 875 |
|  |  |  |  |  |  | Appropriation | 40 000 |
|  |  |  |  |  |  | Balance | 282 125 |
|  |  |  | **518 950** |  |  |  | **518 950** |
| 2019Mar | 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 stock720 000= ½ (28 000 + 24 000)= 720 00026 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:$$\frac{135 000+78 750+40 000 X 100}{½ \left(500 000+600 000\right)+ ½ \left(328 750+80 000\right)}$$$$\frac{253 750 X 100}{754 375 1}$$= 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$$\frac{490625 X 100}{½ \left(1 246 625 +1 110 000\right) 1}$$$$\frac{253 750 X 100 }{754 375 1}$$ = 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. |