

**ACCOUNTING GRADE 11**

**TEST 2 Ratio analysis Memo**

**2.1**

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|  | **YUGO** | **TUMI** | **TOTAL** |
| Partners salaries | 110 400 | 99 000 | 209 400 |
| Interest on capital | 32 500 **A** | 24 000 |  |
| Bonus | - | 9 000 **E** |  |
| Total primary distribution | 142 900 **B** | 132 000 **D** | 274 900 **C** |
| Share in the remaining profit | 11 550 | 8 400 **G** | 19 950 |
| Net profit for the year | 154 450 | 140 400 | 294 850 |

**Working:**

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| **A.** | 500 000 x 6% x = 5000 | **D.** | 274 900 – 142 900 = 132 000 |
|  | 550 000 x 6% x = 27 500 |  |  |
|  | 5000 + 27 500 =32 500 | **E.** | 132 000 – 99 000 – 24 000 = 9 000 |
| **B.** | 110 400 + 32 500 = 142 900 | **F.** | 19 950 x = 11 550  (550 000: 400 000 = 11:8) |
| **C.** | 294 850 – 19 950 = 274 900 |  |  |
|  |  | **G.** | 19 950 x = 8 400 |

**2.2**

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| **2.2.1** | **Debt/ Equity ratio** |
|  | 303 780: 1 012 600 = 0.3:1 |
| **2.2.2** | **Percentage return earned by HUGO (Use average equity)** |
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**2.3**

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| **Current ratio:**  It decreased from 2.5:1 to 1.7:1 but it still indicates that there is adequate short- term assets to cover current liabilities.  **Acid test ratio:**  Improved from 1.8:1 to 1.1:1.  Suggests that the business is holding too much stock in the previous year and was able to turn over stock more effectively in the current year.  **Debtors collection period:**  Improved from 42 days to 31 days. Debtors are paying close to 30 days that is normally allowed. Indicates an improvement in the collection policy. |

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| **2.4** | **Comment on the returns earned by each partner. Quote figures** |
|  | * Yugo’s earnings decreased from 33% to 29.5% * Tumi’s earnings decreased from 41% to 33%. * Although both partners experienced a drop in their earnings, it is still above the returns earn if they considered an alternative investment such as a fixed deposit. |
| **2.5** | **Suggest TWO different ways in which this project can be financed. Provide relevant figures.** |
|  | * Capital increased by only R50 000 over the past year. Possibility of each increasing by more. * The investment remained at R300 000. Possibility of cashing in the investment. * A large portion of the loan was repaid thereby improving the debt/equity ratio. * Interest on loan is only 12% but the return on capital employed is 25%. * The business can borrow more money at 12% p.a. interest this would result in positive gearing. |