 Province of the

EASTERN CAPE

EDUCATION

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

**HOME SCHOOLING SELF-STUDY**

**NOTES AND ACTIVITIES**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **SUBJECT** | ACCOUNTING | | **GRADE** | 11 | **DATE** |  | | | |
| **TOPIC** | Analysis and Interpretation of Financial statements: Revision of Grade 10 | | | | | **Term** | 2 | **Week** | 5 |
| **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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| **VERY IMPORTANT** | |  |
|  |  |  |
| * Know how to calculate financial indicators (Formula’s) | |  |
| * Know how to interpret financial indicators | |  |
|  |  |  |
|  |  |  |
| **CATEGORIES OF FINANCIAL INDICATORS** | |  |
|  |  |  |
| **1.** | **PROFITABILITY** |  |
|  | *How efficient is the business in its normal operating activities (how profitable is it and how well does it manage its expenses)* |  |
|  |  |  |
|  | Financial indicators: |  |
|  | % Gross profit on sales |  |
|  | % Net profit on sales |  |
|  | % Operating expenses on sales |  |
|  | % Operating profit on sales |  |
|  | % Gross profit on cost of sales (Mark-up) |  |
|  |  |  |
|  | **Answers must be in % (percentage)** |  |
|  | **All figures come from income statement** |  |
|  |  |  |
|  |  |  |
| **2.** | **LIQUIDITY** |  |
|  | *The ability of a business to pay off its short-term or immediate debt without any problems. It indicates if the business has handled its working capital effectively.* |  |
|  |  |  |
|  | Financial indicators: |  |
|  | Current ratio - Ratio x : 1 |  |
|  | It looks at the ability of the business to repay its short- term debts. |  |
|  | Acid test ratio - Ratio x : 1 |  |
|  | It looks at the ability of the business to repay its short-term debts without being forced to sell stock. |  |
|  | Net current assets (net working capital) – Rand |  |
|  | Stock turnover rate – Times per year |  |
|  | It looks at how often does the business replenish / order its stock. |  |
|  | Average debtors collection period – Days |  |
|  | It looks at how soon does the business receive money from its debtors. |  |
|  | Average creditors payment period – Days |  |
|  | It looks at how soon does the business pay its creditors. |  |
|  | Stock holding period – Days |  |
|  | It looks at how often is stock replenished. |  |
|  |  |  |
|  |  |  |
| **3.** | **SOLVENCY** |  |
|  | *The ability of a business to pay off all its debt* |  |
|  |  |  |
|  | Financial indicator: |  |
|  | Total assets: Total liabilities |  |
|  | The business is either solvent or not, depending on whether the assets are more than the liabilities. |  |
|  | If the assets are more than liabilities then the business is solvent and vice versa. |  |
|  |  |  |
| **4.** | **RETURNS** |  |
|  | *How profitable is the owner’s investment in the business* |  |
|  |  |  |
|  | Financial indicators: |  |
|  | Return on average partners’ equity - % |  |
|  | The percentage can be compared to bank interest rates for alternative investments. |  |
|  |  |  |
|  |  |  |
| **FORMULAS USED TO CALCULATE FINANCIAL INDICATORS** | |  |
|  |  |  |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Area of Analysis** | **Related financial indicators** | **How it is calculated-formula** | **Answer shown as/in** | | | **Profitability / operating efficiency** | 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 on sales | Net profit 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** | Current ratio | Current assets : Current liabilities | Ratio (x:1) | | | Acid test ratio (Quick Ratio) | Receivables + Cash: Current liabilities or  (Current Assets – Inventory) | Ratio (x:1) | | **Solvency** | Solvency ratio | Total assets : Total Liabilities | Ratio (x;1) | | Net assets | Total assets – Total liabilities | Rands | | **Return** | Return on owners’ equity | Net profit x 100  Average owners’ equity 1 | % | | | |

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| --- | --- | --- | --- | --- |
| **ACTIVITY 1** | | | | |
|  |  | | |  |
| The following summary was extracted from the Financial Statements of Freeway Supermarket. | | | | |
|  |  | | |  |
| **REQUIRED:** | | | |  |
|  |  | | |  |
| 1. | Calculate the following financial indicators: | | |  |
|  |  | | |  |
|  | 1.1. | | Gross profit on sales |  |
|  | 1.2 | | Gross profit on cost of sales |  |
|  | 1.3 | | Net profit on sales |  |
|  | 1.4 | | Operating expenses on turnover |  |
|  | 1.5 | | Return on owners’ equity (use average equity) |  |
|  | 1.6 | | Current ratio |  |
|  | 1.7 | | Acid test ratio |  |
|  |  | |  |  |
| 2. | Comment on the mark-up percentage achieved. Bear in mind that the business aims at a mark-up of 60% on cost. | | |  |
|  |  | |  |  |
| 3. | Comment on the percentage earned by the owner. | | |  |
|  |  | |  |  |
| 4. | Comment on the current and acid-test ratios. | | |  |
|  |  | | |  |
| 5. | What is the amount of the owner’s drawings for the year? Bear in mind that he contributed a car valued at R56 800 as additional capital. | | |  |
|  |  | | |  |
| **INFORMATION:** | | | |  |
|  |  | | |  |
| **A.** | **INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019** | | |  |
|  | |  |  | | --- | --- | | Sales | 680 000 | | Cost of Sales | (450 000) | | Gross Profit | 230 000 | | Other Income (interest) | 2 800 | | Operating Expenses | (157 800) | | Net Profit | 75 000 | | | |  |
|  |  | | |  |
| **B.** | **BALANCE SHEET AS AT 28 FEBRUARY 2019** | | |  |
|  | |  |  | | --- | --- | | Owners’ Equity (beginning of the year) | 200 000 | | (end of the year) | 300 000 | | Non-current Liabilities | 160 000 | | Tangible Assets | 220 000 | | Investments (Financial Assets) | 20 000 | | Inventory (beginning of the year) | 120 000 | | (end of the year) | 150 000 | | Trade and other receivables | 122 000 | | Cash and Cash equivalents | 24 000 | | Trade and other payables | 76 000 | | | |  |
| **ACTIVITY 2** | | | | |
|  | |  | |  |
| The information provided in this question was extracted from the books of Downtown Stores on 29 February 2020. | | | | |
|  | |  | |  |
| **REQUIRED:** | | | |  |
|  | |  | |  |
| 2.1 | | Calculate the percentage mark-up obtained by the business. | |  |
|  | |  | |  |
| 2.2 | | Provide TWO reasons for the difference in the mark-up percentages.  (See Information C). | |  |
|  | |  | |  |
| 2.3 | | Calculate the percentage gross profit on sales. | |  |
|  | |  | |  |
| 2.4 | | Calculate the percentage net profit on sales. | |  |
|  | |  | |  |
| 2.5 | | List ONE reason for the decrease in percentage in your calculations in Questions 2.3 and 2.4 | |  |
|  | |  | |  |
| 2.6 | | Calculate the return on average owner’s equity. | |  |
|  | |  | |  |
| 2.7 | | Should the owner be satisfied with his percentage return?  Explain quoting financial indicators to support your answer. | |  |
|  | |  | |  |
| 2.8 | | Calculate the current ratio for 2020. | |  |
|  | |  | |  |
| 2.9 | | Calculate the acid test ratio for 2020. | |  |
|  | |  | |  |
| 2.10 | | Explain why trading stock is excluded in the calculation for the acid test ratio. | |  |
|  | |  | |  |
| **INFORMATION:** | | | |  |
|  | |  | |  |
| **A.** | | **EXTRACT FROM THE INCOME STATEMENT** | |  |
|  | | |  |  | | --- | --- | | Sales | 850 000 | | Cost of Sales | (500 000) | | Gross Profit | 350 000 | | Other operating income | 10 000 | | Operating expenses | (241 000) | | Net profit for the year | 119 000 | | |  |
|  | |  | |  |
| **B.** | | **EXTRACT FROM THE BALANCE SHEET** | |  |
|  | | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | Owner’s Equity | 450 000 | 350 000 | | Tangible Assets | 80 000 |  | | Non-current Liabilities | 50 000 |  | | Inventories | 92 000 |  | | Trade and other Receivables | 24 200 |  | | Cash and Cash Equivalents | 6 800 |  | | Trade and other Payables | 41 000 |  | | |  |
|  | |  | |  |
| **C.** | | **FINANCIAL INDICATORS** | |  |
|  | | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | Gross Profit on Sales |  | 43% | | Net Profit on Sales |  | 24% | | Mark-up | 100% | 100% | | Current ratio |  | 2.5:1 | | Acid test ratio |  | 1.2:1 | | Return on average Owner’s Equity |  | 23% | | Interest on Fixed Deposit | 8%p.a. | 8%p.a. | | |  |

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| --- | --- | --- |
| **ACTIVITY 3** | | |
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| The following information was extracted from the Accounting records of Barcelona Stores for the year ending 29 February 2020. | | |
|  |  |  |
| **REQUIRED:** | |  |
|  |  |  |
| 3.1 | Calculate the following financial indicators for the year ended  29 February 2020: |  |
|  |  |  |
|  | * Gross profit percentage on Cost of Sales * Return on Owner’s Equity * Solvency ratio * Current ratio * Acid-test ratio |  |
|  |  |  |
| 3.2 | Is the degree of solvency of the business satisfactory? Explain quoting figures. |  |
|  |  |  |
| 3.3 | Explain if the increase in the gross profit percentage was a good strategy. Quote figures |  |
|  |  |  |
| 3.4 | Return on Owner’s Equity |  |
|  |  |  |
|  | * Comment on the return on Owner’s Equity. * The owner is offered a maximum return on Investment of 8% by his financial Institution. Advise him about the offer. |  |
|  |  |  |
| 3.5 | Should the owner be satisfied with the profitability of the business? Explain by quoting TWO relevant financial indicators. |  |
|  |  |  |
| 3.6 | Comment on the liquidity of the business by quoting TWO relevant financial indicators. |  |
|  |  |  |
|  |  |  |
| **INFORMATION:** | |  |
|  |  |  |
| **A.** | **EXTRACT FROM THE INCOME STATEMENT** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | Sales | 2 400 000 | 1 860 000 | | Cost of Sales | (1 554 000) | (1 440 000) | | Gross Profit | 846 000 | 420 000 | | Other Operating Income | 190 000 | 180 000 | | Gross Operating Income | 1 036 000 | 600 000 | | Operating expenses | (668 000) | (479 000) | | Operating Profit | 368 000 | 121 000 | | Interest Income | 16 000 | 16 000 | | Interest Expense | (65 620) | (70 320) | | Net Profit | 318 380 | 66 680 | |  |
|  |  |  |
| **B.** | **EXTRACT FROM THE BALANCE SHEET** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | Tangible/ Fixed Assets | 300 000 | 240 000 | | Fixed Deposit | 400 000 | 400 000 | | Current Assets (including Inventories) | 648 400 | 746 000 | | Inventories | 518 400 | 495 000 | | Owner’s Equity | 665 200 | 604 000 | | Non-current liabilities | 460 000 | 544 000 | | Current Liabilities | 259 200 | 238 000 | |  |
|  |  |  |
| **C.** | **FINANCIAL INDICATORS** |  |
|  | |  |  |  | | --- | --- | --- | |  | **2020** | **2019** | | Gross profit percentage on sales | 55.3% | 32.6% | | Gross profit percentage on cost of sales | ? | 39.2% | | % operating expenses on sales | 37.8% | 35.8% | | % operating profit on sales | 25.3% | 16.5% | | % net profit on sales | 23.3% | 13.6% | | % return on owner’s equity | ? | 16.5% | | Solvency ratio | ? | 1.6:1 | | Current ratio | ? | 3.1:1 | | Acid-test ratio | ? | 1.3:1 | |  |

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| **ACTIVITY 4** | | |
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| You are provided with information relating to Access Furnishers for the year ended  30 June 2019. The business uses a fixed mark-up of 50% on cost. | | |
|  |  |  |
| **REQUIRED:** | |  |
|  |  |  |
| 4.1 | Calculate the balance of the Capital account on 30 June 2019. The owner contributed an additional R300 000 towards his capital during the year. |  |
|  |  |  |
| 4.2 | Calculate the following financial indicators: |  |
|  |  |  |
|  | * Mark-up % achieved * % Net profit on turnover * Current ratio * Acid test ratio * % Return on average owners’ equity earned |  |
|  |  |  |
| 4.3 | Should the owner be satisfied with the mark-up % achieved? Explain quoting figures. |  |
|  |  |  |
| 4.4 | In 2018 the owner earned 30% on his investment in this business. |  |
|  |  |  |
|  | * Provide one reason why the owner should be satisfied with the return he received on his investment in 2019. * Provide one reason why the owner would not be satisfied with the return on his investment in 2019. |  |
|  |  |  |
| **INFORMATION:** | |  |
|  | |  |
| |  |  | | --- | --- | | Sales | 1 312 000 | | Cost of sales | 976 000 | | Net profit | 185 600 | | Capital (1 July 2018) | 496 000 | | Drawings | 118 400 | | Fixed deposit (8% p.a.) | 32 000 | | Trading stock | 353 536 | | Current assets (including trading stock) | 599 840 | | Current liabilities | 265 600 | | Fixed/tangible assets | ? | | Non-current liabilities | 260 800 | | |  |

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| --- | --- | --- | --- | --- |
| **CLASS TEST (40 marks; 35 minutes)** | | | | |
|  |  | | |  |
| **A** | **CONCEPTS** | | |  |
|  |  | | |  |
| 1.1 | Choose the correct word from the list for each statement given. | | |  |
|  | liquidity; solvency; profitability; return on investment | | |  |
|  |  | | |  |
|  | 1.1.1 | | How efficient a business is. |  |
|  | 1.1.2 | | Whether the owner’s equity would be better rewarded elsewhere. |  |
|  | 1.1.3 | | How stable a business is to survive in the long-run |  |
|  | 1.1.4 | | Whether a business is able to pay off its short-term debts. | (4) |
|  |  | | |  |
| **B** | **INTERPRETATION OF FINANCIAL STATEMENTS** | | |  |
|  |  | | |  |
| 1.2 | **SWIFT TRADERS**  The following information relates to on 28 February 2020. | | |  |
|  |  | | |  |
|  | **REQUIRED:** | | |  |
|  | *Note:* A formula sheet is supplied.  All calculations to be rounded off to ONE decimal place. | | |  |
|  |  | | |  |
|  | Calculate the following ratios for 2020 and comment as indicated: | | |  |
|  |  |  | |  |
|  | 1.2.1 | Current ratio | | (6) |
|  | 1.2.2 | Acid test ratio | | (3) |
|  | 1.2.3 | Compare these results with those of 2019 and comment on the liquidity of the business. | | (4) |
|  | 1.2.4 | Calculate the percentage return on average owner’s equity. | | (6) |
|  | 1.2.5 | Should the owner be satisfied with this return? Motivate your answer. | | (3) |
|  |  | | |  |
| **INFORMATION:** | | | |  |
|  | | | |  |
| |  |  | | --- | --- | | Capital (1 March 2019) | 400 000 | | Net profit | 90 000 | | Trading stock | 46 500 | | Creditors | 26 000 | | Drawings | 70 000 | | Debtors | 33 000 | | Bank overdraft | 24 000 | | Cash float | 2 500 | | Current ratio (2019) | 2:1 | | Acid test ratio (2019) | 1.5:1 | | | | |  |
|  |  | | |  |
| 1.3 | **LS COMPUTERS**  The financial year ends at the end of February each year. | | |  |
|  |  | | |  |
|  | **REQUIRED:** | | |  |
|  |  | | |  |
|  | 1.3.1 | Calculate the percentage mark-up for 2020 | | (3) |
|  | 1.3.2 | Give TWO reasons for the deviation from the target mark-up of 40%. | | (4) |
|  | 1.3.3 | The percentage mark-up for 2019 was 50%. What influence did the change in mark-up have on the business? Quote figures to support your answer. | | (2) |
|  | 1.3.4 | LS Computers spent less on national advertising and focused on local advertising. Was this decision to their advantage? Quote figures to support your answer. | | (3) |
|  | 1.3.5 | What percentage of sales is spent on salaries and wages? | | (2) |
|  |  |  | |  |
|  | **INFORMATION:** | | |  |
|  |  | | |  |
|  | |  |  |  | | --- | --- | --- | |  | **2018** | **2017** | | Sales | 810 000 | 645 000 | | Cost of sales | 600 000 | ? | | Gross profit | 210 000 | 215 000 | | Mark-up target | 40% | 50% | | Advertising | 30 000 | 55 000 | | Salaries and Wages | 64 800 | ? | | Net profit | 150 000 | 136 000 | | | |  |
|  |  | | |  |

**FORMULA SHEET ACCOUNTING FINANCIAL INDICATORS**

|  |  |  |  |
| --- | --- | --- | --- |
| Gross profit X 100  Sales 1 | Gross profit X 100  Cost of sales 1 | | Net profit X 100  Sales 1 |
| Operating expenses X 100  Sales 1 | | Operating profit X 100  Sales 1 | |
| Current assets: Current liabilities | | (Current assets – Inventories): Current liabilities | |
| (Trade and other receivables + cash and cash equivalents): Current liabilities | | | |
| Net profit\_\_ X 100  Owner's equity 1 | | Total assets : Total liabilities | |