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|  Province of theEASTERN CAPEEDUCATION**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)****HOME SCHOOLING SELF-STUDY** **MARKING GUIDELINE**

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| **SUBJECT** | ACCOUNTING | **GRADE** | 11 | **DATE** |  |
| **TOPIC** | Analysis and Interpretation of Financial statements: Introduction to Grade 11 financial indicators | **Term**  | 2 | **Week** | 6 |

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| **WORKSHEET 1** |  |
| **GRADE** | 11 | **TERM**  | 2 | **WEEK** | 6 |

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| **ACTIVITY 1** |  |  |  |  |
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| **Calculate and comment on the following financial indicators for 2020:** |
| **1.1 Stock turnover rate** 654 000 ½ (45 875 + 33 390)= 654 000 39 633= 16.5 timesThe stock turnover rate of 16.5 times is an indication that the business is more competitive resulting to the stock being more liquid. |
| * 1. **Stock holding period**

½ (45 875 + 33 390) x 365 654 000 1= 39 633 x 365 654 000 1= 22 daysStock being replenished after every 22 days means that the business does not have a stock holding problem because stock is converted into cash within this period. |
| * 1. **Average debtors’ collection period**

½ (9 630 + 8 224) x 365 92 500 1= 8 927 x 365 92 500 1= 35 days* The collection period is just more than 30 days.
* The business must improve its credit control by collecting debts within 30 days.
* The business could improve its credit collection by allowing discount to early payment or by charging interest on accounts in arrears.
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| * 1. **Average creditors’ payment period**

½ (15 744 + 19 887) x 365 179 580 1= 17 816 x 365 179 580 1= 36 daysThe business should negotiate with the creditors in order to make use of the 90 days concession. |

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| **WORKSHEET 2** |  |
| **GRADE** | 11 | **TERM**  | 2 | **WEEK** | 6 |

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| **ACTIVITY 2** |  |  |  |  |
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| **Calculate and comment on the following financial indicators for 2020:** |
| * 1. **Stock turnover rate**

 276 180 ½ (55 710 + 28 252)= 276 180 41 981= 6.6 timesStock is replenished 6.6 times during the year, this may be good or bad depending on the type of product being sold. |
| * 1. **Stock holding period**

½ (55 710 + 28 252) x 365 276 180 1= 41 981 x 365 276 180 1= 55 daysStock is replenished after 55 days, whether this is good or bad depends on the type of the product. |
| * 1. **Average debtors’ collection period**

½ (44 577 + 26 650) x 365 354 130 1= 35 614 x 365 354 130 1= 37 days* The collection period is more than 30 days.
* The business must improve its credit control by collecting debts within 30 days.
* The business could improve its credit collection by allowing discount to early payment or by charging interest on accounts in arrears.
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| * 1. **Average creditors’ payment period**

½ (33 175 + 40 424) x 365 253 472 1= 36 800 x 365 253 472 1= 53 daysThe business should negotiate with the creditors in order to make use of the 90 days concession. |

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| **WORKSHEET 3** |  |
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| **GRADE** | 11 | **TERM**  | 2 | **WEEK** | 6 |

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| **ACTIVITY 3** |  |  |  |  |
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| * 1. **Calculate the following for 2020:**
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| * + 1. **Percentage return earned by MF Stores**

 Net profit = (40 000 + 28 000 + 9 500 + 4 750 + 8 000 + 4 000)  = 94 250Partners equity: 2020 = (200 000 + 100 000 + 12 000 – 3 000)   = 309 000Partners equity: 2019 = (180 000 + 90 000 + 18 000 – 9 000)  = 279 000 94 250 x 100½ (309 000 + 279 000) 1= 32% |
|  **3.1.2 Amount earned by Mark**40 000 + 9 500 + 8 000= R57 500 |
| * 1. **3 Amount earned by Fish**

28 000 + 4 750 + 4 000= R36 750 |
| * + 1. **Percentage return earned by Mark**

 57 500 x 100½ (200 000 + 12 000 + 180 000 + 18 000) 1= 57 500 x 100 205 000 1= 28% |
| * + 1. **Percentage return earned by Fish**

 36 750 x 100(100 000 – 3 000 + 90 000 – 9 000) 1= 36 750 x 100 178 000 1 = 20.6% |

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| * 1. **Calculate the debt/equity ratio for 2019 and 2020.**
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|  2019 = 250 000 : (180 000 + 90 000 + 18 000 – 9 000)  = 250 000 : 279 000  = 0.9 : 12020 = 210 000 : (200 000 + 100 000 + 12 000 – 3 000) = 210 000 : 309 000 = 0.7 : 1 |

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| * 1. **Comment on your calculations above.**
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| * Percentage returns are satisfactory because they are higher than what is usually offered as interest by financial institutions.
* The decline in the debt-equity ratio from 0.9 : 1 in 2019 to 0.7 :1 in 2020 is an indication that the business is relying more on own capital in 2020 than in 2019.
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| **WORKSHEET 4** |  |
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| **GRADE** | 11 | **TERM**  | 2 | **WEEK** | 6 |

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| **ACTIVITY 4** |  |  |  |  |
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| **Calculate and comment on the following financial indicators:** |
| * 1. **Percentage return earned by NM Stores for 2020**

 Partners equity: 2020 = 420 000 + 380 000 + 20 000 + 5 000  = 825 000 Partners equity: 2019 = 360 000 + 330 000 + 8 000 + 3 000 = 701 000Percentage return earned by NM Stores = 152 250 x 100 ½ (825 000 + 701 000) 1 = 152 250 x 100 763 000 1 = 20%The percentage return of 20 % earned by NM Stores is satisfactory considering that alternative investments like fixed deposits usually earn less. |
| * 1. **Amount earned by Naidoo in 2020**

 60 000 + 19 500 + 15 000 = R94 500 |
| * 1. **Amount earned by Martin in 2020**

30 000 + 17 750 + 10 000= R57 750 |

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| * 1. **Percentage return earned by Naidoo in 2020**

 94 500 x 100½ (420 000 + 20 000 + 360 000 + 8 000) 1= 94 500 x 100 404 000 1= 23.4%The percentage return of 23.4 % earned by Naidoo is satisfactory considering that alternative investments like fixed deposits usually earn less. |
| **4.5 Percentage return earned by Martin in 2020** 57 750 x 100½ (380 000 + 5 000 + 330 000 + 3 000) 1= 57 750 x 100 359 000 1= 16.1%The percentage of 16.1% earned by Martin is less than that earned by the business and Naidoo but still higher than alternative investments. |
| **4.6 Debt/equity ratio for both years**.2019 = 300 000 : (360 000 + 330 000 + 8 000 + 3 000) = 300 000 : 701 000 = 0.4 : 12020 = 200 000 : (420 000 + 380 000 + 20 000 + 5 000) = 200 000 : 825 000 = 0.2 : 1 * The ratio in both years indicates that the business is mostly financed by their own capital than borrowed capital.
* The decline in the debt-equity ratio from 0.4 : 1 in 2019 to 0.2 :1 in 2020 is an indication that the business is relying more on own capital in 2020 than in 2019.
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| **WORKSHEET 5** |  |
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| **GRADE** | 11 | **TERM**  | 2 | **WEEK** | 6 |

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| **ACTIVITY 5** |  |  |  |  |
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| * 1. **Calculate and comment briefly on the following financial indicators.**

 **When commenting refer also to the corresponding figures which are**  **provided for 2019.**  |
| * **Rate of stock turnover**

 240 000 ½ (78 900 + 70 800)= 240 000 74 850= 3.2 timesImproved from 2.1 times in 2019 to 3.2 times in 2020 and this is an indication that there has been an improvement in sales. |
| * **Percentage return on equity**

Partners equity: 2019 = 70 000 + 30 000 + 10 000 + 8 000 = 118 000Partners equity: 2020 = 100 000 + 50 000 + 6 000 + 4 000 = 160 000 60 000 x 100½ (118 000 + 160 000) 1= 60 000 x 100 139 000 1= 43.2%Increased from 33.3% in 2019 to 43.2% in 2020 and it is higher than alternative investments in financial institutions e.g. fixed deposit. |

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| * **Percentage return earned by John**

 40 000 x 100½ (70 000 + 10 000 + 100 000 + 6 000) 1= 40 000 x 100 93 000 1= 43%Increased from 30.5% in 2019 to 43% in 2020 and is more or less equal to the return on equity of the business. It is also higher than alternative investments in financial institutions e.g. fixed deposit. |
| * **Percentage return earned by Shaun**

 20 000 x 100½ (30 000 + 8 000 + 50 000 + 4 000) 1= 20 000 x 100 46 000 1= 43.5%Increased from 39.2% in 2019 to 43.5% and is more or less equal to the equity of the business. It is also higher than alternative investments in financial institutions e.g. fixed deposit. |
| * **Debt / equity ratio**

60 000 : 160 000= 0.4 : 1Decreased from 0.5:1 in 2019 to 0.4:1 in 2020.The risk is low, the business relies more on own capital than interest bearing loans. |

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| * 1. **The partners increased their capital contributions considerably during**

 **the year. How were these extra funds utilized?** |
| * Purchase of fixed assets
* Repayment loans
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| * 1. **The business might require extra capital funds in the future. Do you**

 **advise that they take out further loans or should they increase their**  **capital contributions? Comment briefly.** |
| * The debt equity ratio decreased from 0.5:1 in 2019 to 0.4:1 in 2020.
* They may take out further loan because the gearing is low and satisfactory
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| * 1. **Calculate the following:**
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| * **How long the trading stock is expected to last**

½ (70 800 + 78 900) x 365  240 000 1 = 74 850 x 365 240 000 1 = 113.8 days  |
| * **The period of credit granted to debtors**

½ (40 000 + 30 200) x 365 192 000 1= 35 100 x 365 192 000 1= 66.7 days |
| * **The period credit granted by creditors**

½ (24 800 + 12 300) x 365 240 000 1 = 18 550 x 365 240 000 1= 28 days |

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| * 1. **What advice do you offer this business with regard to its control of**

 **working capital?** |
| * Credit policy which will require debtors to pay within 30 days (allow discounts for payments within 30 days and charge interest on overdue accounts)
* Arrange with suppliers to allow them 90 days to pay their debts.
* Increase sales through price reduction in order to reduce stock holding period (strategies to increase sales)
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