 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** | 21 May –2020 |
| **TOPIC** | **Analysis and interpretation of financial statements** |  **Term 2** |

**Activity 4 Ratios Memo**

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| 4.1 | **Which businesses earns the better net profit? What is the reason for this, bearing in mind that they are both efficient businesses.** |
| GG Garbs earns the higher net profit as they have lower interest expense. |
| 4.2 | **Calculate the debt : equity ratio for each business.** |
| AA Attire 450 000: 450 000= 1: 1GG Garb 90 000: 810 000 = 0.1: 1 |

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| 4.3 | **Calculate the percentage return earned by each business.** |
| AA Attire: 130 500 x 100 ½ [330 000 + 450 000] 1 130 500 x 100 = 33.5% 390 000 1 GG Garb: 171 100 x 100 ½ [600 000+ 810 000] 1 171 100 x 100 = 24.3% 705 000 1 |
| 4.4 | **Which business would you choose to join as a one-third partner? Remember that you will have to contribute one-third of the equity (capital).** |
| **Consider points in favour of AA Attire:*** Higher percentage return
* Positive gearing effect
* Less capital to contribute (1/3 of R450 000= R150 000, rather that 1/3 of R810 000 = R270 000)

**Consider points in favour of GG Garb:*** Safer investment – lower debt-equity ratio. If profit drop, then there is less strain on the business repaying loans and paying interest.
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