Western Cape Government

Western Cape Education Department
Curriculum (FET)

ACCOUNTING

REVISION 2024

GRADE 11

TERM 2

ACTIVITIES

This revision material has been developed to help you review and capture the key content and skills as included in the Revised Annual Teaching Plan for 2024. The aim is to improve your understanding of basic, core concepts and to provide you with an opportunity to establish the required standard and the application of the knowledge necessary to succeed in the NCS (Gr 12) examination.

The 2024 Gr 11 revision program *(3 sets of booklets*)* will cover the following topics:

- Term 1: Reconciliations; Fixed assets; Partnership accounts
- **Term 2: Partnership Financial statements; Analysis & interpretation (this set)**
- Term 3 & 4: Budgeting; Inventory systems; Cost accounting; VAT

** A set of booklets = Activities book (solutions via QR code & link) and Workbook*

Dear Grade 11 Accounting learner

The activities in this revision booklet have been carefully selected to consolidate (strengthen) your knowledge and skills in the topics covered in Term 2. Activities are mostly in the NSC (Gr 12) format so that you will be familiar with this layout by the time you are in Gr 12. Take note of the Exam writing tips below and apply them every day.

REMEMBER: You will only be successful in Accounting if you work EVERY day. You need to make sure you understand any new work introduced or consolidate/revise 'older' topics. Good work ethics in Accounting ensures high levels of self confidence in our subject!

All the best for 2024. Stay focused and ask for assistance when needed.

EXAM / TEST WRITING TIPS	
1.	Answer all questions in an Answer book (or answer sheets)
2.	ALWAYS write neat and legible. Be proud of the work presented to your teacher, marker and/or moderator.
3.	READ questions, sub-questions and all information carefully. Start reading from the first paragraph, as important information are given, such as the financial period and the type of ownership (sole trader/partnership).
4	Information are given in the same sequence as the sub-questions. Underline key words in the question and in the information (you may use the same coloured pen/pencil)
5.	SHOW calculations, step by step or in brackets where applicable. Part marks may be earned for applyng the correct process (+, -, x, ÷) or using the applicable amounts in your calculations (sometimes from a previous answer).
6.	Always use your OWN calculator - the same calculator that you use at home when you study

PARTNERSHIPS - FINANCIAL STATEMENTS

Basic concepts	GAAP principles | financial year | year-end adjustments | accrued expenses | accrued income prepaid expenses | income received in advance | depreciation | trading stock deficit | provision for bad debts | interest on capital | profit sharing | primary division of profit | final division of profit | gross profit | net profit | assets | liabilities | non-current assets | non-current liabilities | current assets | current liabilities | partner's equity | total owners' equity | retained income

FORMAT/LAYOUT:

STATEMENT OF COMPREHENSIVE INCOME (Income Statement)

Statement of Comprehensive Income **for the year ended** ...

Sales (- Debtors allowances)	
(less) Cost of sales	( )
Gross Profit	*'A'*
Other operating income	*'B'*
…	…
…	…
Gross operating income	*'A+B'*
Operating expenses	( ) *'C'*
…	…
…	…
Operating profit	*'(A+B) -C'*
(add) Interest income	
Profit before Interest expense	
(less) Interest expense	( )
Net Profit for the year	

SOME 'BASIC' ADJUSTMENTS

- **ALWAYS ADD:** Accrued income; Accrued expenses
- **ALWAYS SUBTRACT**: Prepaid expenses; Income received in advance
- **Goods returned by debtors**: Add selling price to Debtors allowance and subtract from Debtors control in the Statement of Financial Position (Balance sheet); the Cost of these goods to be subtracted from COS and add to Trading stock (in Statement of Financial Position (Balance sheet).
- **Subtract**: Consumable stores on hand from total in the trial balance
- **Trading stock deficit/surplus:** Look out for adjustments affecting inventory
- **Depreciation**: Vehicles and Equipment - know the different methods to calculate depreciation for the year.
- **Bad debt recovered**: INCOME received from a debtor who was previously written off. Include as income.
- **Bad debts**: look out for adjustments affecting debtors before calculating the Provision for bad debts
- **Provision for bad debts adjustment**: bigger than the balance given (Expense); smaller than balance given (Income)
- **Fund Contributions** to UIF/Medical aid/Pension funds must be ADDED to Salaries and wages
- **Insurance:** Use amount in the adjustment (outside the accounting period) and DEDUCT from Insurance
- **Rent income/expense**: note the increase /decrease in rent during the year before calculating the total rent for the year. The difference between total rent and the trial balance amount will be the rent accrued/prepaid/ received in advance. The total (adjusted) rent will appear in the SOI.

NOTE: Ensure that you 'place' income and expense items correctly. Marks are deducted for incorrect 'placement' even if the amount of the item is correct (e.g. the provision for bad debts adjustment (increased) should be 'placed' under Expenses).

NOTES for Interest Income and Interest Expenses should be included in a Statement of Comprehensive Income.

FORMAT/LAYOUT: STATEMENT OF FINANCIAL POSITION (Balance Sheet)

Name of the business

STATEMENT OF FINANCIAL POSITION AS AT		
ASSETS		
NON-CURRENT ASSETS		
Fixed assets	3	
Financial assets: Fixed deposits: ABC Bank		
Long term loan to a partner: P. Partner		
CURRENT ASSETS		
Inventories	4	
Trade and other receivables	5	
Cash and cash equivalents *(incl. the current portion of the Loan to Partner)*	6	
TOTAL ASSETS		
EQUITY AND LIABILITIES		
PARTNERS' EQUITY (or OWNERS' EQUITY)		
Capital	7	
Current accounts	8	
NON-CURRENT LIABILITIES		
Mortgage loan: ABC Bank		
Long term Loan from partner: P Partner		
CURRENT LIABILITIES		
Trade and other payables	9	
Bank overdraft*		
Current portion of mortgage loan (*can be included in Note 9)*		
TOTAL EQUITY AND LIABILITIES		

FORMAT/LAYOUT: NOTES TO FINANCIAL STATEMENTS (UNIQUE TO PARTNERSHIPS)

7.

CAPITAL	Partner A	Partner B	Total
Balance at the beginning of year			
Net profit (loss) for the year			
Additional capital contributed			
Decrease in capital contribution	( )	( )	( )
Balance at the end of year			

8.

CURRENT ACCOUNTS	Partner A	Partner B	Total
Net profit as per Statement of Comprehensive Income			
Partners' salaries *(1)*			
Interest on capital *(2)*			
Partners' bonuses *(3)*			
Primary distribution of profit *(Tot of 1,2 and 3)*			
Final distribution of profit			
Drawings for the year	( )	( )	( )
Undrawn profits (retained income) for the year			
Balance at the beginning of year (*may be used as the starting figure at the top of this note)*			
Balance at the end of year			

ACTIVITY 1 (Concepts)

Choose the correct word in COLUMN B to match the description in COLUMN A. Write only the letter (A – E) next to the question number (1.1 – 1.5) in the Workbook.

COLUMN A		COLUMN B	
1.1	A contract between a minimum of two people, whereby they combine assets and skills with the aim of earning a profit and sharing the profits.	A	Unlimited liability
1.2	An anonymous person who is not known to the public and does not take an active role in the business	B	Ethical Principles
1.3	If the partnership does not have sufficient funds in order to settle the debts, the partners' personal assets will be used to settle the debts of the business.	C	Owner's equity
1.4	The total of the Capital accounts and the Current accounts of all the partners at the end of the year	D	Silent partner
1.5	Objectivity, trust and integrity	E	Partnership agreement

(5)

ACTIVITY 2 (Statement of Comprehensive Income, Notes) (83 marks; 65 minutes)

The information was extracted from the records of JJ Stores on 28 February 2023, the end of the current financial year. The partners are Ms Jozi and Mr Jay.

REQUIRED

2.1 Prepare the **Statement of Comprehensive Income** for the year ended on 28 February 2023. (35)
***NOTE**: Some amounts are provided in the Workbook. Show all workings in brackets.*

2.2 Complete the **Notes** to the Statement of Financial Position:

- Capital (8)
- Current accounts (32)

2.3 Jozi is not happy with the manner in which Jay is handling his investment in the business.

- Provide TWO reasons to justify why she feels this way. In each case provide relevant figures to support your comments. (4)
- Propose TWO practical suggestions that the partnership can use to address the concern expressed by Jozi (4)

INFORMATION

A. Extracts from the financial records:

Capital: Jozi (1 March 2022)	R240 000
Capital: Jay (1 March 2022)	360 000
Drawings: Jozi	26 409
Drawings: Jay	57 403
Current account: Jozi (1 March 2022)	(Cr) 22 360
Current account: Jay (1 March 2022)	(Dr) 10 100
Sales	998 400
Cost of sales	665 600
Net profit (as per Profit and Loss account)	311 133

B. Extract of Pre-adjustment amounts from the General Ledger on 28 February 2023:

Loan: Kudu Bank	?
Fixed deposit: Bok Bank (9% p.a.)	120 000
Debtors control	68 720
Provision for bad debts (1 March 2022)	3 936
Trading stock	134 840
Rent income	117 250
Insurance	21 455
Packing material	23 100
Water and electricity	25 320
Interest income	8 100
Sundry expenses	?

C. The following adjustments were taken into account to calculate the net profit:

1. The annual stock take revealed the following stock on hand:
   - Trading stock, R130 540
   - Packing material unused, R3 600
2. Adjust the provision for bad debts to 5% of the net trade debtors
3. Interest on loan is capitalised. The loan statement received from Kudu Bank showed the following:

Loan balance on 1 March 2022	R374 600
Repayments for the year (including interest)	86 400
Interest capitalised	?
Loan balance on 28 February 2023	327 000

4. The rent for March 2023 was received and deposited. Take into account that the rent was increased by R875 from 1 December 2022.
5. Insurance includes the annual policy for R5 820 paid on 1 June 2022.
6. The water and electricity account for February 2023 was not yet paid, R2 150
7. Interest on fixed deposit is not capitalised. Interest for the last quarter of this financial year was not yet received.

D. Transactions relevant to the partners:

1. Jozi took goods from stock for her personal use. The selling price was R9 590. Goods are marked up by 75% on cost. Only the trading stock entry was processed.
2. Jay used the business's money to settle his personal telephone account, R5 100
3. The partnership agreement clause for salaries provided for the following:
   - Jozi R113 400 annually
   - Jay R7 800 per month

   NOTE: The partners were entitled to an annual increase of 10% effective on 1 December each year. The above allowances were not adjusted with this increase.
4. Interest on capital is calculated at 8% of the capital balances. On 1 June 2022, Jozi increased her capital by R40 000 and Jay decreased his capital by R10 000. These changes were not taken into account.
5. Jozi is entitled to a performance bonus equal to 3% of the total sales.
6. Partners share remaining profits or losses in the ratio of their capital balances at the end of the year.

83

ACTIVITY 3 (Statement of Comprehensive Income) (45 marks; 35 minutes)

The following information was taken from the records of Mondaze Traders, with partners Mona and Daz. The financial year ended on 28 February 2023.

REQUIRED:

Complete the Statement of Comprehensive Income for the year ended 28 February 2023. **(45)**

INFORMATION:

A. Balances and totals on 28 February 2023 (unless otherwise indicated):

Buildings	963 000
Loan: First Bank	709 400
Fixed deposit: Win Bank (8,5% p.a.)	120 000
Trading stock	224 330
Debtors control	48 220
Provision for bad debts (1 March 2022)	1 420
Sales	852 000
Cost of sales (profit mark-up is 50% on cost)	?
Rent income	42 500
Commission income	19 440
Discount received	7 760
Interest on investment	7 650
Salary and wages	141 360
Consumable stores	9 370
Bad debts	3 980
Insurance	14 740
Repairs and maintenance	13 930
Lease of equipment	13 100
Sundry expenses	10 660

B. Additional adjustments not taken into account

- Outstanding debts totaling R3 220 must be written off and the provision for bad debts must then be adjusted to 4% of debtors.
- The rent for February was not yet received. Take into account that the tenant was granted R1 500 reduction in rent during November 2022 due to repairs being done to the buildings.
- A fire insurance policy was entered into on 1 July 2022. The annual premium of R7 020 was paid in full.
- The February 2023 loan statement showed an outstanding balance of R742 000. Interest on loan is capitalised. A fixed instalment including interest is paid on 27th of each month.
- Interest on fixed deposit must be taken into account. The money was invested in June 2021. Interest is not capitalised.
- The annual stock take revealed that R2 460 worth of stock was missing. Unused consumable stores amounted to R880.
- Repairs to the building for R5 320 was posted in error to the Buildings account.

45

ACTIVITY 4 (Statement of Financial Position; Notes) (65 marks; 55 minutes)

4.1 Choose the correct description from the list below to match the statement

Cash & cash equivalents	**Trade & other receivables**	**Trade & other payables**	
Inventories	**Fixed assets**	**Current Account**	**Capital**

4.1.1 Rates and taxes not paid for the last month of the financial year

4.1.2 Packing material on hand at the end of the financial year.

4.1.3 Fixed deposit matures within nine months of the end of the financial year

4.1.4 The repayment of the Loan to a partner is to be received in the next financial year

4.1.5 Interest earned by partners on their capital investment in their partnership **5**

4.2 GOLDEN BROWN BAKERY

The information relates to Golden Brown Bakery, owned by partners Martin Gold and Mary Brown for the financial year ended 28 February 2023.

REQUIRED

4.2.1 Prepare the following **Notes to the Statement of Financial Position**:

4.2.1.1 Current accounts (no total column required) (24)

4.2.1.2 Trade and other payables (6)

4.2.2 Complete the **Statement of Financial Position** as at 28 February 2023. (30)

INFORMATION

A Extract from the Post-Adjustment Trial Balance on 28 February 2023:

Capital: Gold	500 000
Capital: Brown	300 000
Current account: Gold (1/3/2022)	33 000
Current account: Brown (1/3/2022)	(Dr) 15 400
Drawings: Gold	12 000
Drawings: Brown	10 000
Fixed (Tangible) assets at carrying value	?
Fixed deposit: Lama Bank (6% p.a)	225 000
Trading stock	146 900
Consumable stores on hand	3 870
Trade debtors	73 00
Trade creditors	65 000
Accrued Income / Income receivable*	10 490
Accrued expenses / Expenses payable*	3 100
Prepaid expenses	2 100
Income received in advance	8 250
Bank	(Cr) 27 710
Cash float	3 500
Petty Cash	1 500
Loan: Mama Bank (15% p.a.)	480 000
Creditors for salaries	45 000
SARS (PAYE)	22 500

**Only use one of these alternative terms*

B. Additional information

1. R75 000 of the fixed deposit will mature on 30 June 2023
2. R60 000 of the capital portion of the loan will be paid during the next financial year.
3. Brown took trading stock for personal use. The price on the goods reflected R6 900. The mark-up is 50% on cost. No entry was made in respect of this.
4. Brown increased his capital by R80 000 halfway during the financial year. This has been recorded properly.
5. The partnership agreement provides for:
   - Gold receives a salary of R11 000 per month and an annual bonus of R12 000.
   - Brown's annual salary is R108 000.
   - Partners are entitled to 10% interest on their capital investment.
   - Remaining profit and losses are shared between Gold and Brown in the ratio 3:2
6. The net profit for the year after all the adjustments had been processed was R400 000.

65

ACTIVITY 5 (Statement of Financial Position; Notes) (30 marks; 25 minutes)

The following information was taken from the books of Beatles Traders. The business is owned by partners John Lennon and Paul McCartney.

REQUIRED:

5.1 Complete the **NOTES to the financial statement**s for the year ended 28 February 2023:

- Fixed Assets (Vehicles column only) (7)
- Trade and other receivables (7)

5.2 Complete the **ASSETS section** of Statement of Financial Position of Beatles Traders on 28 February 2023.
Where notes are NOT required, show calculations in brackets. (12)

5.3 Study the figures given for Equipment in the Fixed Assets Note in the ANSWER BOOK. Explain the reason for the carrying value of R1 on 1 March 2022. (2)

5.4 John wants to sell the old equipment as it is no longer needed. Paul has suggested donating the old equipment to a local charity. Give ONE reason why you would support Paul's suggestion. (2)

INFORMATION:

A. BALANCES ON 1 MARCH 2022:

Vehicles	R 580 000
Equipment	80 000
Accumulated depreciation on vehicles	224 000
Accumulated depreciation on equipment	79 999

B. BALANCES ON 28 FEBRUARY 2023:

Fixed deposit: Starr Bank (9% p.a.)	200 000
Trading stock	155 400
Debtors' control	78 000
Provision for bad debts	3 500
Bank (unfavourable)	14 000
Cash float	5 000
Income received in advance	4 500
Accrued expenses / Expenses payable	1 800
Prepaid expenses	3 400

C. ADDITIONAL INFORMATION:

1. A vehicle was sold for cash on 28 February 2023 and was properly recorded:

- Cost price, R150 000
- Accumulated depreciation on the date of sale (28 February 2023) amounted to R41 625
- Selling price, R90 000

Vehicles are depreciated at 15% on the diminished balance. Total depreciation on vehicles for the year amounted to R53 400.

Equipment is depreciated at 20% on cost.

2. The statement received from Starr Bank showed interest received for February 2023 that has not yet been recorded by Beatles Traders. Interest is capitalised. R80 000 of the fixed deposit will mature on 30 November 2023.

3. A physical stock count revealed the following closing inventories on hand on 28 February 2023:

- Trading stock R155 400
- Packing material R3 600

Note:
On 28 February 2023, the day after the physical stocktaking, trading stock with a cost price of R50 000 was stolen during a robbery. The insurance company agreed to pay out 80% of the claim during March 2023.

4. The provision for bad debts must be adjusted to 5% of debtors.

30

Analysis of Financial statements

Financial statements tell the 'story' of the business.
Analysing the statements helps to understand this story.

PARTNERSHIPS - FINANCIAL INDICATORS

Basic concepts	Gross profit on cost of sales | Net profit on sales | Operating expenses on sales | Operating profit on sales | Current ratio | Acid test ratio | Stock turnover rate | Stock holding period | Average debtors' collection period | Average creditors' payment period Debt equity ratio (risk & gearing) | Return on each partners' equity | Return on average owner's equity | Return on total capital employed (ROTCE)

Financial statements are analysed to find answers to certain questions.
Structure your comments with these 'questions' (given below) in mind
(The ❶/❷ refers to Exam Paper 1 and/or Exam Paper 2)

QUESTION	TERM	FINANCIAL INDICATOR	FORMULA / Comment
How profitable is the business; how well does it control its expenses and how effective is the business in its operation?	Profitability and operating efficiency	% Gross profit on sales ❶/❷	$^{GP}/_{Sales}$ x 100 = … %
		% Gross profit on CoS ❶/❷	$^{GP}/_{CoS}$ x 100 = … %
		% Operating profit on sales ❶/❷	$^{OP}/_{Sales}$ x 100 = … %
		% Operating expenses on sales ❶/❷	$^{OE}/_{Sales}$ x 100 = … %
		% Net income on sales ❶/❷	$^{NI}/_{Sales}$ x 100 = … %
Can the business repay its short-term debts; is the operating capital being handled efficiently? Cash flow problems?	Liquidity	Current ratio ❶	CA : CL
		Acid test ratio ❶	(CA - Inventory) : CL **OR** (Debtors + Cash) : CL
		Stock turnover rate ❶/❷	Cost of Sales / Ave. Trading Stock = ...times *The higher this number, the faster assets can be turned into cash*
		Stock holding period ❶/❷	Ave Stock / Cost of Sales x 12 (365) / 1 (1) = ... months (days)
		Debtors collection period ❶/❷	Ave Debtors / Credit Sales x 365 / 1 = ... days *The aim is 30 days*
		Creditors payment period ❶/❷	Ave Creditors / Credit Purchases x 365 / 1 = ... days • *Good, if it takes longer to repay creditors* • *Negotiate for 90 days to avoid interest*
Can the business repay its debt?	Solvency	Owners' equity or Net assets (sustainability/continuity) ❶	Total assets : Total liabilities
Do the owners/partners earn a good return on their capital invested in the business?	Return on invesmtent	% Return on ave. partners' equity ❶	Net profit / Ave. Owners' (Partners) equity x 100 *Compare this % with alternative investments, e.g. fixed deposit interest %*
		Amount earned by each partner ❶	Partner salary + Int on capital + Bonus + Share of profit (deduct a share in a loss) *This amount represents the net profit portion earned by each partner. [include any other additional remuneration]*
		% Return earned by each partner ❶	Amount earned by a partner / The partner's ave equity x 100 / 1 *Compare this % to other partners' % return and to % interest on other investments*

<table>
<tr><th>QUESTION</th><th>TERM</th><th>FINANCIAL INDICATOR</th><th>FORMULA</th></tr>
<tr><td rowspan="2">To what extent is the business funded by borrowed capital, and to what degree does it affect the financial risk?
Can the business borrow more money?
Is it worth it?</td><td rowspan="2">Risk / Gearing</td><td>Debt : Equity ratio ❶</td><td>LT Liabilities : OE = (…. : 1)
OE = Partners' capital + Current accounts

- Creditworthiness = ability to obtain loans.
- High risk/low creditworthiness = 0,5 : 1 to 1 : 1 (opt to contribute capital)
- Low risk /high creditworthiness = 0,1 : 1 to 0,4 : 1 (can borrow more)
- Compare this ratio before and after a change in loans to show the change in risk levels</td></tr>
<tr><td>Return on total capital employed (ROTCE) ❶</td><td>$\frac{\text{Net Profit \& Interest on loan}}{\text{Ave. capital employed}} \times \frac{100}{1}$

- Capital employed = OE + LT loans
- Compare to % interest on loans
- Higher = high gearing; loans are used to expand and make more profit.
- Lower = low gearing; loans not used effectively to earn profits. May not be able to repay loans with interest.</td></tr>
</table>

BASELINE ACTIVITY 1

Classify the given financial indicators in the table below (see the example completed in the table):

(NOTE: Some indicators may appear in more than one column)

Operating profit on sales	Ave creditors' payment period
Return on average owner's equity	Current ratio
Gross profit on cost of sales	Net profit on sales
Acid test ratio	Stock turnover rate
Operating expenses on sales	Ave Debtors' collection period
Stock holding period	Return on each partners' equity
Debt equity ratio (gearing)	Return on total capital employed (ROTCE)

Profitability	Liquidity	Solvency	Return	Risk
Gross profit on Sales				

BASELINE ACTIVITY 2

Match the questions in Column B with the category in Column A. Write only the correct letter from Column B next to the category in Column A.

Column A	
2.1	Profitability
2.2	Solvency
2.3	Liquidity
2.4	Return
2.5	Financial risk / gearing

Column B	
A	Can the business pay off its current or immediate debts comfortably?
B	Are the owners (partners) earning a good return on their investment in their business?
C	To what extent is the business financed by loans in comparison to own capital?
D	Is the business efficient in its normal operating activities? In other words, are they able to make a profit and how well are they controlling their expenses?
E	Can the business pay off all its debts comfortably?

ACTIVITY 1 (Statement of Financial Position with Financial indicators)

You are provided with extracts of the financial statements of Mkuni Stores owned by S. and J. Mkuni. Mkuni Stores sell a range of hardware items to the public. 90% of sales are on credit and all purchases are on credit.

REQUIRED:

1.1 Complete the Statement of Financial Position of Mkuni Stores given in the Answer Book on 31 August 2023.

1.2 Answer the following questions:

S. Mkuni is concerned about the difference in returns between what she and J. Mkuni are earning.

1.2.1 Discuss ONE possible reason for the difference.

1.2.2 Do you think S. Mkuni's concern is justified?

1.3 Calculate the following:

1.3.1 Debtors collection period (on closing balances)

1.3.2 Creditors payment period (on closing balances)

1.4 Comment on the liquidity of the business. Use figures /ratios to support your opinion.

INFORMATION:

A. The current ratio for 2019 is 2,5 : 1

B. Sales for 2023 amounted to R1 152 000. A mark-up percentage of 50% on cost was maintained throughout the year

C. The stock turnover rate for 2023 was 8 times and was constant throughout the year

D. On 1 September 2022 the business had a bank overdraft of R50 000 and no other cash reserves. During the year ended 31 August 2023 the bank increased by R60 000.

E. The net profit for the year ended 31 August 2023 amounted to R126 000

F. The return on average partners' equity amounted to 28% with S. Mkuni earning a return of 12% and J. Mkuni 39%

G. The debt : equity ratio amounted to 0,15 : 1

ACTIVITY 2 (Financial indicators and internal control) (40 marks; 35 minutes)

You are provided with information relating to Jet Setters, a clothing store owned by Mr Jetson and Mrs Trendy on 28 February 2023.

REQUIRED:

2.1 Calculate the following financial indicators on 28 February 2023.

2.1.1 Operating expenses on turnover (3)

2.1.2 Acid test ratio (4)

2.1.3 % Return on average owners' equity (7)

2.1.4 Stock turnover rate (5)

2.2 Comment on the liquidity position for 2023. Quote THREE relevant financial indicators (actual ratios or figures) to support your answer. (8)

2.3 The owners are not satisfied with the rate at which the stock is being sold. Explain why they feel this way by quoting a relevant financial indicator to support your explanation. (4)

2.4 Discuss THREE reasons why a business should not have too much stock. (6)

2.5 Will the owners of this business be satisfied with the return on equity? Explain by quoting a financial indicator to support your opinion. (3)

INFORMATION

A. Extract from the Post Closing Trial Balance	2023	2022
Capital: Incredible	900 000	1 050 000
Capital: Trendy	540 000	540 000
Current account: Incredible	138 150	108 000
Current account: Trendy	(36 000)	(17 100)
Trading stock	480 000	450 000
Debtors' control	126 000	90 000
Bank	-	108 000
Creditors control	216 000	171 000
Bank overdraft	360 000	-

B. Extract from Statement of Comprehensive Income	2023	2022
Sales	2 700 000	2 430 000
Cost of sales	1 080 000	1 080 000
Gross profit	1 620 000	1 350 000
Operating expenses	972 000	720 000
Net profit	648 000	630 000

C. Financial indicators	2023	2022
Net profit on sales	24%	25,9%
Operating expenses on turnover	**?**	29,6%
Current ratio	1,1 : 1	3,4 : 1
Acid test ratio	**?**	1,2 : 1
Stock turnover rate	**?**	3,9 times
Debtors' collection period	48,7 days	40 days
% Return on average owners' equity	**?**	44%

ACTIVITY 3 (Analysis & Interpretation) (40 marks, 30 minutes)

The information relates to Tamthan Electronics, owned by partners Tammy and Thando. Their financial year ends annualy on 28 February.

REQUIRED:

Study the information and answer the questions which follow. In support of your answers, you have to quote figures and/or the actual financial indicator(s) (ratios/percentages) where appropriate. (40)

INFORMATION

Extracts from the ledger on 28 February 2023.

CAPITAL: THANDO							
				2022 Mar. 1	Balance	b/d	900 000
				Aug.31	Bank		800 000
							1 700 000

CURRENT ACCOUNT: THANDO							
2023 Feb. 28	Drawings: Thando		77 000	2022 Mar 1	Balance	b/d	40 000
	Balance	c/d	90 000	2023 Feb.28	Salary: Thando		70 000
					Interest on Capital		48 000
					Appropriation acc		9 000
			167 000				**167 000**
				2023 Mar. 1	Balance	b/d	90 000

Extract from the Statement of Financial Position on 28 February

	2023	2022
Fixed assets	3 052 000	2 270 000
Investments	150 000	180 000
Current assets	850 000	720 000
TOTAL ASSETS	4 052 000	3 170 000
Owners' equity	2 732 000	2 330 000
Non-current liabilities (14% p.a.)	1 000 000	600 000
Current liabilities	320 000	240 000
TOTAL EQUITY & LIABILITIES	4 052 000	3 170 000

Amounts obtained from the financial statements

	2023	2022
Sales (40% on credit)	R3 100 000	R4 200 000
Cost of sales	1 820 000	2 640 000
Operating profit	365 800	600 600
Net profit	269 000	520 000
Capital – Tammy	1 000 000	1 400 000
Capital – Thando	1 700 000	900 000
Current Account – Tammy	(58 000)	(10 000)
Current Account – Thando	90 000	40 000
Trading stock	180 000	440 000
Trade debtors	410 000	230 000
Trade creditors	245 000	184 000

Financial indicators calculated from the financial statements

	2023	2022
Operating profit as a % of sales	11,8%	14,3%
Net profit as a % of sales	8,6%	12,2%
Current ratio	2,6:1	3,0:1
Acid-test ratio	2,1:1	1,2:1
Stock turnover rate	5,9	7,0
Debtors' average collection period	?	54 days
Creditors average payment period	23 days	25 days
Solvency ratio	?	3,88:1
Debt/Equity ratio	?	0,26:1
Return on total capital employed	10,1%	11,2%
% return on average equity	12,9%	17,1%
% return earned by Tammy	14,7%	16,6%
% return earned by Thando	?	17,3%

QUESTIONS:

3.1 **Solvency**:

3.1.1 Calculate the solvency ratio for 2023. (3)

3.1.2 Comment on this ratio. Is this business likely to experience a solvency problem? Briefly explain. (3)

3.2 **Gearing and profitability:**

3.2.1 Calculate the debt/equity ratio for 2023. (3)

3.2.2 Thando is not happy with the debt/equity ratio and feels that it is negatively affecting the performance of the business. State TWO points (financial indicators) to support his opinion. (4)

3.3 **Returns and equity**:

3.3.1 Calculate Thando's % return on average equity. (4)

3.3.2 Thando believes his return is unsatisfactory and that Tammy is taking advantage of her senior position in the partnership. State TWO points to support Thando's opinion. (6)

3.4 **Liquidity**:

3.4.1 Calculate the average debtor*s'* collection period for 2023. (5)

3.4.2 Customers are complaining that the business seldom stocks the products they would like to buy. Explain, stating TWO points. Quote figures and financial indicators to proof the customers' complaints. (4)

3.4.3 The partners disagree about the liquidity situation.

- Tammy is not worried about the liquidity situation for the immediate future.
- Thando feels that there is danger signs for the long-term sustainability of the business as far as liquidity and cash flow are concerned.

State TWO points to support Tammy's opinion and TWO points to support Thando's opinion. (8)

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ACTIVITY 4 (Analysis & Interpretation) (20 marks, 25 minutes)

Lion Traders is a business owned by partners Sheru and Shakeelah. The financial year ends on 30 June each year.

REQUIRED:

4.1 Calculate and comment on the percentage return earned on by Sheru. (Use average owner's equity). (6)

4.2 The partners are satisfied that the liquidity of the business has improved over the past year. Identify and comment on TWO liquidity indicators which support their opinion. Quote the relevant financial indicators/figures/trends. (6)

4.3 Calculate the Debt/Equity ratio on 30 June 2023. (4)

4.4 The partners have planned extensions to the building to the value of R100 000. Partner Sheru suggested they take an additional loan to finance the extensions. Do you agree with this suggestion? Give TWO points. Quote appropriate financial indicators with figures to substantiate your answer. (4)

INFORMATION:

A. Details of partners' Capital contributions on 30 June 2023:

CAPITAL ACCOUNTS	SHERU	SHAKEELAH	TOTAL
Balance: beginning of year	800 000	640 000	1 240 000
Additional capital contributed	200 000	-	100 000
Decrease in capital	-	(40 000)	(40 000)
Balance: end of year	**1 000 000**	**600 000**	**1 300 000**

B. Extract from the partners Current Accounts on 30 June 2023

CURRENT ACCOUNTS	SHERU	SHAKEELAH	TOTAL
Net Profit for the year	320 000	380 000	700 000
Primary distribution	300 000	340 000	640 000
Final distribution of profit	20 000	40 000	60 000
Drawings for the year	(222 000)	(302 000)	(524 000)
Retained income for the year	98 000	78 000	176 000
Balance: beginning of year	34 000	(28 800)	5 200
Balance: end of year	132 000	49 200	181 200

C. Financial indicators on 30 June:

	2023	2022
Current ratio	2,8 : 1	2,1 : 1
Acid-test ratio	0,7 : 1	1,1 : 1
Stock holding period	75 days	90 days
Average debtors' collection period	45 days	40 days
Average creditors payment period	55 days	70 days
Debt/equity ratio	?	0,5 : 1
Return on total equity	53%	45%
Return on earnings: Sheru	?	
Return on earnings: Shakeelah	30,2%	
Return on total capital employed (ROTCE)	40%	38%

D. Loan from Gudu Bank:

- The loan statement received from Gudu Bank shows an outstanding balance of R450 000.
- The interest rate on the loan is fixed at 14% p.a.

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Solutions to all activities: https://wcedeportal.co.za/eresource/198111