



Western Cape
Government

Education

Directorate: Curriculum FET

TELEMATICS 2015

ACCOUNTING Grade 11

Dear Grade 11 Accounting learner

Welcome to the Telematics project. This programme will support your revision and study programme in preparation for your final Grade 11 Accounting examination.

This is an opportunity for you to consolidate what you have been taught in class. The Telematics presenters will focus on analysis and interpretation of financial statements of Partnerships. This topic is very important, both for Grade 11 and for Grade 12, where you will do the same topic but in the context of Companies.

Tips for success in Accounting

In order to succeed in Accounting you need to take heed of the following:

- Start working from day 1
- Pay careful attention in class to ensure that you understand
- Complete Accounting homework/exercises daily
PRACTICE...PRACTICE...PRACTICE
- Work neatly and accurately
- Show calculations in brackets
- Read instructions to questions/activities carefully to ensure you know what is being asked
- Complete tasks and assessment activities including tests diligently as if preparing for your final examination
- Use past examination papers and tests for revision
- Refine your examination technique: when you revise, choose questions that will extend you in your weaker areas. Use the time allocations provided in the question to judge whether you are completing the question in the time available.

All the best with your preparation for your Grade 11 Accounting examination.

Dr GR Schreuder
Senior Curriculum Planner: Accounting

TELEMATIC TEACHING

ACCOUNTING TIME TABLE – GRADE 11

<i>Date/Datum</i>		<i>Time/Tyd</i>	<i>Topic/Onderwerp</i>	<i>By the end of this lesson you should know: Teen die einde van hierdie les behoort jy die volgende te ken:</i>
Monday 19 Oktober	Accounting	16:00 – 17:00	Partnerships Analysis and interpretation of financial statements	<ul style="list-style-type: none"> ▪ The purpose of calculating and analysing financial indicators ▪ The questions asked by readers of financial statements ▪ Where to find the information ▪ How to calculate financial indicators/ratio's ▪ How to analyse financial indicators/ratio's
Dinsdag 20 Oktober	Rekeningkunde	16:00 – 17:00	Vennootskappe Ontleding en vertolking van finansiële state	<ul style="list-style-type: none"> ▪ Waarom ons finansiële aanwysers bereken ▪ Waar om die inligting te kry ▪ Hoe om finansiële aanwysers/verhoudings te bereken ▪ Hoe om finansiële aanwysers/verhoudings te ontleed
Thursday 29 Oktober	Accounting	16:00 – 17:00	Partnerships Analysis and interpretation of financial statements	<ul style="list-style-type: none"> ▪ The purpose of calculating and analysing financial indicators ▪ Where to find the information ▪ How to calculate financial indicators/ratio's ▪ How to analyse financial indicators/ratio's
Vrydag 30 Oktober	Rekeningkunde	16:00 – 17:00	Vennootskappe Ontleding en vertolking van finansiële state	<ul style="list-style-type: none"> ▪ Waarom ons finansiële aanwysers bereken ▪ Waar om die inligting te kry ▪ Hoe om finansiële aanwysers/verhoudings te bereken ▪ Hoe om finansiële aanwysers/verhoudings te ontleed

Activity 1

Basic questions asked by readers of financial statements

The financial indicators you will need to calculate answer certain questions about the financial statements of a business. There are 5 questions readers ask. Match the questions in Column B with the category in Column A. Write the correct question next to the category in Column A.

	Column A		Column B
1.1	Profitability	A	Can the business pay off its current or immediate debts comfortably?
1.2	Solvency	B	Are the owners (partners) earning a good return on their investment?
1.3	Liquidity	C	To what extent is the business financed by loans in comparison to capital?
1.4	Return	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?
1.5	Financial risk / gearing	E	Can the business pay off all its debts comfortably?

Activity 2

Where to find the information

When calculating financial indicators, the information can either be found in the Income Statement or in a section of the Balance Sheet.

Indicate where you will find the following information.

	Information	Where to find it
2.1	Gross profit	Top of Income Statement
2.2	Sales (turnover)	
2.3	Net profit	
2.4	Current liabilities	
2.5	Operating profit	
2.6	Amount invested by each partner	
2.7	Current assets	
2.8	Inventory	
2.9	Amount withdrawn by the partners	
2.10	Debtors	
2.11	Non-current liabilities	
2.12	Creditors	

Activity 3

Financial indicators

You need to be able to calculate and interpret the following financial indicators. You should NOT need to memorise these as the way to calculate them can be read from the financial indicator. It is more important to understand what the financial indicators are telling you about the business.

Category	Financial indicator	How to calculate
Profitability & operating efficiency	% Gross profit on sales (turnover)	
	% Gross profit on cost of sales (mark-up %)	
	% Operating expenses on sales (turnover)	
	% Operating profit on sales (turnover)	
	% Net profit on sales (turnover)	
Solvency	Net Assets	
	Solvency ratio	
Liquidity	Net current assets or net working capital	
	Current ratio	
	Acid test ratio	
	Stock turnover rate	
	Stock holding period	
	Debtors collection period	
	Creditors payment period	

Gearing / Risk	Debt-equity ratio	
Return	% Return on average owners' equity	
	% Return earned by each partner	

Activity 4

You are provided with information relating to Exquisite Curios Shop for the year ended 28 February 2015. The business is owned by Sally Peter and Walter Pan.

REQUIRED: Calculate the financial indicators below. Calculate all to one decimal point. The 2014 calculations are provided for you.

Profitability		2014
4.1	Gross profit on cost of sales	90%
4.2	Gross profit on sales	47,4%
4.3	Operating expenses on sales	29,7%
4.4	Operating profit on sales	12,8%
4.5	Net profit on sales	10,1%
Liquidity		2014
4.6	Current ratio	5,4 : 1
4.7	Acid test ratio	2,1 : 1
4.8	Stock turnover rate	8,3 times
4.9	Stock holding period	44 days
4.10	Debtors average collection period	69 days
4.11	Creditors' payment period	60 days
Solvency		
4.12	Solvency ratio	2,9 : 1
Risk/Gearing		
4.13	Debt-equity	0,4 : 1
Return		
4.14	% Return on equity	16,5%
4.15	% Return earned by Peter	16%
4.16	% Return earned by Pan	17%

INFORMATION:**A. Figures extracted from the Income Statement**

Sales (50% on credit)	2 839 200
Cost of sales (all stock is purchased on credit)	1 622 400
Operating expenses	792 720
Operating profit	424 080
Net profit	375 600

B. Figures extracted from the Balance Sheet

	2015	2014
Capital	1 824 000	1 680 000
Peter	960 000	960 000
Pan	864 000	720 000
Current accounts	243 600	84 000
Peter	151 200	60 000
Pan	92 400	24 000
Loan: Reliant Bank	288 000	768 000
Current liabilities	261 600	165 600
Trade and other payables	194 400	165 600
Bank overdraft	67 200	0
Fixed/Tangible assets	1 969 200	1 396 800
Fixed deposit: Big Bank (5,5%)	168 000	408 000
Current assets	480 000	892 800
Inventories (all trading stock)	270 000	342 000
Trade and other receivables (all debtors)	204 000	486 000
Cash and cash equivalents	6 000	64 800

Current accounts	Peter	Pan	Total
Profit for the year	235 200	140 400	375 600
Partners' salaries	108 000	72 000	180 000
Partners' bonuses	36 000	0	36 000
Interest on capital	48 000	39 600	87 600
Primary distribution	192 000	111 600	303 600
Share of remaining profit	43 200	28 800	72 000
Drawings	(144 000)	(72 000)	(216 000)
Retained income for the year	91 200	68 400	159 600
Retained income at beginning of year	60 000	24 000	84 000
Retained income at end of year	151 200	92 400	243 600

Activity 5

You are provided with information relating to Brooklynne Traders. The business is owned by two partners, Ben Brookes and Ian Lynne.

REQUIRED:

Study the information and answer the questions which follow. In support of your answers you must quote figures and/or the actual financial indicators (ratios/percentages) where appropriate.

INFORMATION:

The following information was extracted from the ledger on 28 February 2015:

CAPITAL: LYNNE

				2014 March	1	Balance	900 000
				Aug	31	Bank	800 000
							1 700 000

CURRENT ACCOUNT: LYNNE

2015 Feb	28	Drawings: Lynne	77 000	2014 March	1	Balance	40 000
				2015 Feb	28	Salary: Lynne	70 000
						Interest on capital	48 000
		Balance	90 000			Appropriation account	9 000
			167 000				167 000
				2015 March		Balance	90 000

The following figures were extracted from the Balance Sheet:

	2015	2014
Fixed/tangible 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:

	2015	2014
Sales (40% on credit)	3 100 000	4 200 000
Cost of sales	1 820 000	2 640 000
Operating profit	365 800	600 600
Net profit	269 000	520 000
Capital – Brookes	1 000 000	1 400 000
Capital – Lynne	1 700 000	900 000
Current Account – Brookes	(58 000)	(10 000)
Current Account – Lynne	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:

	2015	2014
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	?	3,4:1
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 Brookes	14,7%	16,6%
% return earned by Lynne	?	17,3%

QUESTIONS:**5.1 Solvency**

5.1.1 Calculate the ratio of total assets to total liabilities for 2015.

5.1.2 Comment on this ratio. Is this business likely to experience a solvency problem? Briefly explain.

5.2 Gearing

5.2.1 Calculate the debt/equity ratio for 2015.

5.2.2 Lynne is not happy with the debt/equity ratio and feels that it is negatively affecting the performance of the business. State TWO points to support her opinion.

5.3 Returns and equity:

5.3.1 Calculate Lynne's % return on average equity.

5.3.2 Lynne is of the opinion that her return is unsatisfactory and that Brookes is taking advantage of his senior position in the partnership. State THREE points to support Lynne's opinion.

5.4 Liquidity:

5.4.1 Calculate the debtors average collection period for 2015.

5.4.2 The customers are complaining that the business seldom stocks the models or styles that they would like to buy. Which figures and financial indicators provide proof of this problem? Briefly explain. State TWO points.

5.4.3 The partners disagree about the liquidity situation.

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

State TWO points to support Brooke's opinion and TWO points to support Lynne's opinion.

Activity 6

You are provided with information obtained from the financial statements of Manchester Traders. The business is owned by two partners, Mandy and Chester.

REQUIRED:

Study the information and answer the questions that follow.

INFORMATION:

Extract from the Income Statement for the year ended 28 February 2015 with comparative figures:

	2015 R	2014 R
Sales	745 500	630 800
Cost of sales	426 000	380 000

Extract from the Appropriation Statement for the year ended 28 February 2015:

- Net profit for the year, R152 000
- Total amount earned by Mandy, R103 000
- Total amount earned by Chester, R49 000

Extract from the Balance Sheet on 28 February 2015, with comparative figures:

	2015 R	2014 R
Fixed assets (carrying value)	381 790	336 950
Investments (9% p.a.)	140 000	30 000
Current assets	113 560	121 050
TOTAL ASSETS	635 350	488 000
Owners' equity	473 710	326 150
Capital: Mandy	275 000	200 000
Capital: Chester	200 000	125 000
Current account: Mandy	(dr) 24 690	(cr) 2 350
Current account: Chester	(cr) 23 400	1 200
Non-current liabilities (13% p.a.)	94 840	114 000
Current liabilities	66 800	48 420
TOTAL EQUITY AND LIABILITIES	635 350	488 570

Financial indicators calculated on 28 February 2015, with comparative figures:

	2015	2014
Gross profit on cost of sales	75,0%	65,0%
Operating expenses on sales	21,0%	21,2%
Operating profit on sales	21.8%	19,5%
Net profit on sales	?	17,2%
Current ratio	?	2,5 : 1
Acid-test ratio	0,6 : 1	0,8 : 1
Stock-turnover rate	6 times	4,5 times
Debtor collection period	30 days	45 days
Creditors' payment period	60 days	60 days
Debt/Equity ratio	?	0,35 : 1
Total assets to total liabilities	3,9 : 1	3,0 : 1
Return on total capital employed	32,8%	30,5%
% return on average equity	38,0%	33,2%
% return earned by Mandy	?	34,4%
% return earned by Chester	28,2%	33,0%

- 6.1 Calculate the following financial indicators for 2015:
- 6.1.1 Percentage net profit on sales
 - 6.1.2 Current ratio
 - 6.1.3 Debt/Equity ratio
 - 6.1.4 Percentage return earned by Mandy on her average equity
- 6.2 Use the acid-test ratio to calculate the amount of trading stock on hand on 28 February 2015.
- 6.3 Should the partners be satisfied with the control of the operating expenses? Briefly explain your answer. Quote ratios, percentages or figures to support your answer.
- 6.4 Comment on the liquidity position of the business on 28 February 2015. Quote ratios, percentages or figures to support your comment. Provide THREE points.
- 6.5 Chester feels that Mandy's drawings are unreasonable. Quote figures to support his opinion. How does this affect the business?
- 6.6 Comment on the percentage returns earned by the business and the partners. Quote ratios, percentages or figures to support your answer. Provide THREE points.
- 6.7 The business urgently needs a delivery vehicle, which is expected to cost R300 000. In your opinion, how should the business finance the cost of the vehicle? Give a reason for your answer.