



Western Cape
Government

Education

Directorate: Curriculum FET

TELEMATICS 2017

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 not be able to cover all aspects of the curriculum but will rather focus on aspects learners usually find difficulty with.

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 Grade 11 year.

Dr GR Schreuder
Senior Curriculum Planner: Accounting

TELEMATICS TEACHING: ACCOUNTING TIME TABLE – GRADE 11

| Date | Time | Topic | By the end of this lesson you should know: |
|--------------------------|---------------|--|--|
| Monday, 6 February 2017 | 16:00 – 17:00 | Fixed assets: Asset disposal | <ul style="list-style-type: none"> ▪ How to calculate depreciation using the straight line method (on cost price) and the diminishing balance method ▪ How to record the disposal of a fixed asset <ul style="list-style-type: none"> *at the beginning of a financial year *during a financial year *at the end of a financial year ▪ The format of the Asset Disposal account |
| Monday, 20 February 2017 | 16:00 – 17:00 | Fixed assets: Asset disposal and fixed asset note | <ul style="list-style-type: none"> ▪ The format of the Asset Disposal account ▪ The format of the Fixed Asset Note |
| Wednesday, 1 March 2017 | 16:00 – 17:00 | Partnerships: Format of Balance Sheet and Notes | <ul style="list-style-type: none"> ▪ The purpose of an Income Statement ▪ The purpose of a Balance Sheet ▪ The format of the Balance Sheet and Notes to the Balance Sheet ▪ How to prepare a Balance Sheet and Notes to the Balance Sheet ▪ The process you need to follow when preparing the Income Statement and Balance Sheet |
| Thursday, 18 May 2017 | 16:00 – 17:00 | Partnerships: Format of Balance Sheet and Notes | <ul style="list-style-type: none"> ▪ The purpose of an Income Statement ▪ The purpose of a Balance Sheet ▪ The format of the Balance Sheet and Notes to the Balance Sheet ▪ How to prepare a Balance Sheet and Notes to the Balance Sheet ▪ The process you need to follow when preparing the Income Statement and Balance Sheet |
| Tuesday, 10 October 2017 | 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 |

| Tangible/Fixed Assets | | |
|---|---|---|
| Important concepts/skills | <ul style="list-style-type: none"> ▪ Depreciation ▪ Purpose of writing off depreciation ▪ What happens when a fixed asset is fully written off ▪ GAAP principles related to fixed assets: <ul style="list-style-type: none"> *Historical Cost concept – fixed assets are recorded at their original cost price *Prudence – assets that lose value should be depreciated *Matching – depreciation is allocated to the appropriate financial year ▪ Calculation of depreciation on cost price (straight-line) ▪ Calculation of depreciation on diminishing balance ▪ Asset disposal – can be regarded as either a nominal or a balance sheet account. It will not go into Income Statement or Balance Sheet. It is an interim account used to calculate the profit or loss on the sale of a fixed asset. | |
| Disposal of fixed assets | <ul style="list-style-type: none"> ▪ Beginning of year ▪ During the year ▪ End of year | |
| Steps involved in the disposal of a fixed asset | <i>Step 1:</i> Transfer cost price | Dr Asset disposal Cr Fixed asset (Vehicles or Equipment) |
| | <i>Step 2:</i> Write off depreciation (during and end of year) | Dr Depreciation Cr Accumulated depreciation on Equipment/Vehicles |
| | <i>Step 3:</i> Transfer accumulated depreciation | Dr Accumulated depreciation Cr Asset disposal |
| | <i>Step 4:</i> Record sale | <i>Cash sale:</i> Dr Bank Cr Asset disposal |
| | | <i>Credit sale:</i> Dr Debtors control Cr Asset disposal |
| | | <i>Trade in:</i> Dr Creditors control Cr Asset disposal |
| | <i>Step 5:</i> Calculate/Record profit/loss | <i>Profit:</i> Dr Asset disposal Cr Profit on sale of asset (I/S) |
| | | <i>Loss:</i> Dr Loss on sale of asset (I/S) Cr Asset disposal |

| Dr | | Asset disposal | | | | Cr | |
|----|--|---|--|--|--|----|---|
| | | Equipment/ Vehicles (transfer of cost price) | | | | | Accumulated depreciation on equipment/vehicles (transfer of accumulated depreciation) |
| | | Profit on sale of asset (when the asset is sold at more than carrying value) | | | | | Creditors' control/ Debtors' control/ Bank (record the sale) |
| | | | | | | | Loss on sale of asset (when the asset is sold at less than carrying value) |
| | | | | | | | |
| | | | | | | | |

| TANGIBLE ASSETS / FIXED ASSETS | Land & buildings | Equipment | Vehicles | Total |
|--|---------------------|-----------|----------|-------|
| Carrying value at beginning of year | | | | |
| Cost | | | | |
| Accumulated depreciation | | | | |
| Movements: | | | | |
| Additions | | | | |
| Disposals at carrying value | | | | |
| Depreciation | | | | |
| Carrying value on at end of year | | | | |
| Cost | | | | |
| Accumulated depreciation | | | | |

Activity 1

Use the information extracted from the accounting records of Josh Traders to prepare the following accounts in the General Ledger:

- Vehicles
- Accumulated depreciation on vehicles
- Asset disposal
- Depreciation

Balance/close off the accounts on 29 February 2016

Information:

1. On 1 March 2015 the following balances appeared, amongst others, in the books of Josh Traders:

| | |
|--|----------|
| ▪ Vehicles | R759 000 |
| ▪ Accumulated depreciation on vehicles | R297 750 |
2. On 31 August 2015 a vehicle with an original cost price of R180 000 was sold on credit for R100 000. The accumulated depreciation on this vehicle on 1 March 2015 amounted to R60 000.
3. On 1 December 2015 a new vehicle was purchased on credit for R200 000.
4. Depreciation is provided at 20% p.a. on the diminishing balance method.

Activity 2

You are provided with a partially completed note to the Balance Sheet of LauJen Traders on 28 February 2017.

REQUIRED:

- 2.1 Use the additional information below to complete the Fixed Asset Note to the Balance Sheet on 28 February 2017.
- 2.2 Prepare the Asset Disposal Account to record the sale of the Equipment.

ADDITIONAL INFORMATION:

1. Depreciation is written off as follows:
 - Vehicles at 15% p.a. on cost price
 - Equipment at 20% p.a. on diminishing balance method
2. During the year an invoice was received from Hermanus Wholesalers for the following:

| | |
|------------------|---------|
| ▪ Repairs | R12 000 |
| ▪ A garage built | R50 000 |

The full amount had incorrectly been debited to repairs.
3. A new vehicle was bought on credit for R180 000 on 1 November 2016. The owner also paid for the installation of a sound system costing R12 000 and for the license of R540.
4. On 31 August 2016 equipment was traded in against new equipment which cost R240 000 at a loss of R12 160. The equipment that was traded in was bought on 1 March 2015 for R160 000.

PARTNERSHIPS

- Concepts unique to partnerships (Interest on capital; Bonus to partners; Appropriation of profits)
- General Ledger: (Capital accounts; Current accounts; Appropriation account)
- Adjustments
- Preparation of financial statements: Income Statement; Balance Sheet with Notes
- Analysis and interpretation of financial statements

It is important that you know the formats of the financial statements and notes

FORMAT OF INCOME STATEMENT

| | | |
|--|---|--------|
| | Sales | |
| | Cost of sales | () |
| | Gross profit | |
| | Other operating income | |
| | | |
| | | |
| | Gross operating income | |
| | Operating expenses | () |
| | | |
| | | |
| | | |
| | Operating profit | |
| | Interest income | |
| | Profit before interest expenses/Finance cost | |
| | Interest expense | () |
| | Net profit | |

FORMAT OF BALANCE SHEET

| | |
|--|--|
| ASSETS | |
| NON-CURRENT ASSETS | |
| Fixed/Tangible assets (carrying value) | |
| Financial assets | |
| | |
| CURRENT ASSETS | |
| Inventories | |
| Trade and other receivables | |
| Cash and cash equivalents | |
| | |
| TOTAL ASSETS | |
| EQUITY AND LIABILITIES | |
| OWNERS' EQUITY | |
| Capital | |
| Current accounts | |
| | |
| NON-CURRENT LIABILITIES | |
| Loan | |
| | |
| CURRENT LIABILITIES | |
| Trade and other payables | |
| Bank overdraft | |
| Current portion of loan | |
| | |
| TOTAL EQUITY AND LIABILITIES | |

NOTES TO THE FINANCIAL STATEMENTS**FIXED/TANGIBLE ASSET NOTE**

| FIXED ASSETS | Land and buildings | Vehicles | Equipment | Total |
|---|---------------------------|-----------------|------------------|--------------|
| Carrying value at the beginning of the year | | | | |
| Cost price | | | | |
| Accumulated depreciation | () | () | () | () |
| | | | | |
| Movements | | | | |
| Additions | | | | |
| Disposal at carrying value | () | () | () | () |
| Depreciation | () | () | () | () |
| | | | | |
| Carrying value at the end of the year | | | | |
| Cost price | | | | |
| Accumulated depreciation | () | () | () | () |

TRADE AND OTHER RECEIVABLES

| | |
|-----------------------------------|-----|
| Trade debtors | |
| Provision for bad debts | () |
| Net trade debtors | |
| Expenses prepaid | |
| Income accrued (receivable) | |
| Deposit for water and electricity | |
| | |

CASH AND CASH EQUIVALENTS

| | |
|--|--|
| Fixed deposits (maturing within 12 months) | |
| Savings account | |
| Bank | |
| Cash float | |
| Petty cash | |
| | |

TRADE AND OTHER PAYABLES

| | |
|----------------------------|--|
| Trade creditors. | |
| Expenses payable (accrued) | |
| Income received in advance | |
| Pension Fund | |
| Medical Aid Fund | |
| SARS (PAYE) | |
| | |
| | |

| CAPITAL | Partner A | Partner B | Total |
|-------------------------------|------------------|------------------|--------------|
| Balance at beginning of year | | | |
| Contributions during the year | | | |
| Withdrawals during the year | () | () | () |
| | | | |

| CURRENT ACCOUNTS | Partner A | Partner B | Total |
|---|------------------|------------------|--------------|
| Net profit as per Income Statement | | | |
| Partners' salaries | | | |
| Interest on capital | | | |
| Partners' bonuses | | | |
| Primary distribution of profit | | | |
| Final distribution of profit | | | |
| Drawings for the year | () | () | () |
| Undrawn (Retained) profits for the year | | | |
| Balance at the beginning of the year | | | |
| Balance at the end of the year | | | |

Activity 3

You are provided with information relating to GoGold Traders as at 28 February 2017.

REQUIRED:

- 3.1 Prepare the note for the current accounts.
- 3.2 Prepare the Balance Sheet as at 28 February 2017. Where notes are not required, show workings in brackets.

INFORMATION: The following figures were extracted from the books on 28 February 2017:

| | |
|---------------------------------------|-----------|
| Capital: Goliath | 900 000 |
| Capital: Goldworth | 1 020 000 |
| Drawings: Goliath | 450 000 |
| Drawings: Goldworth | 391 500 |
| Current account: Goliath (Cr) | 94 800 |
| Current account: Goldworth (Cr) | 73 500 |
| Mortgage bond: Worthy Bank | 480 000 |
| Loan: XYZ Bank | 108 000 |
| Land and buildings | 1 708 000 |
| Equipment | 584 800 |
| Accumulated depreciation on equipment | 76 740 |
| Trading stock | 427 480 |
| Consumable stores on hand | 22 140 |
| Debtors' control | 61 640 |
| Provision for bad debts | 2 325 |
| Creditors' control | 168 395 |
| Bank (Cr) | 7 800 |
| Savings account | 60 000 |
| Accrued income | 11 580 |
| Income received in advance | 2 280 |
| Accrued expenses | 7 560 |
| Prepaid expenses | 2 760 |
| Petty cash | 900 |
| Cash float | 600 |

Additional information

1. The Income Statement showed a net profit of R780 000.
2. 20% of the loan from XYZ Bank is repayable within the next financial year.
3. The entries for the partnership agreement is still to be made. The partnership agreement stipulates the following:
 - Mr Goliath earns an annual salary of R180 000 while Mr Goldworth earns R24 000 per month
 - The partners earn interest of 12% p.a. The capital balances have remained unchanged for the year.
 - Mr Goliath earned a bonus of R25 000
 - The remaining profit is divided equally between the partners

Activity 4

The following information was taken from the books of Royal Traders. The business is owned by partners B Prins and K King.

REQUIRED:

- 4.1 Prepare the following notes to the financial statements for the year ended 28 February 2017:
- Fixed Assets
 - Trade and other receivables
 - Cash and cash equivalents
 - Current accounts
- 4.2 Prepare the Balance Sheet of Royal Traders on 28 February 2017. Where notes are NOT required, show calculations in brackets.

INFORMATION:**A. BALANCES ON 1 MARCH 2016:**

| | | |
|---------------------------------------|-----|-----------|
| Capital: B Prins | | 936 000 |
| Capital: K King | | 655 200 |
| Current account: B Prins | Cr. | 73 800 |
| Current account: K King | Dr. | 49 200 |
| Vehicles | | 1 392 000 |
| Equipment | | 384 000 |
| Accumulated depreciation on vehicles | | 679 260 |
| Accumulated depreciation on equipment | | 153 600 |

B. BALANCES ON 28 FEBRUARY 2017:

| | | |
|-------------------------------------|-----|---------|
| Fixed deposit: Good Bank (16% p.a.) | | 600 000 |
| Trading stock | | 142 760 |
| Consumable stores on hand | | 9 600 |
| Debtors' control | | 205 200 |
| Provision for bad debts | | 10 260 |
| Creditors' control | | 320 560 |
| Bank | Dr. | 73 200 |
| Savings account | | 265 800 |
| Accrued income / Income receivable | | 7 200 |
| Income received in advance | | 4 800 |
| Accrued expenses / Expenses payable | | 10 140 |
| Prepaid expenses | | 18 360 |

C. ADDITIONAL INFORMATION:

- C.1 One of the fixed deposits with Good Bank for R180 000 matures on 31 May 2017.

C.2 The net profit was appropriated between the partners as follows:

| | B Prins | K King |
|---------------------|----------------|---------------|
| Annual salaries | 550 000 | 440 000 |
| Interest on capital | 210 000 | 147 000 |
| Bonuses | 62 000 | 46 000 |
| Remaining profit | 54 000 | 108 000 |

C.3 The drawings by the partners for the year amounted to

- B. Prins – R900 000
- K. King – R660 000

C.4 There was no change in capital throughout the year.

C.5 A vehicle was sold for cash on 28 February 2017 and was properly recorded:

- Cost price R224 000
- Accumulated depreciation (28 February 2017) 142 900
- Selling price 90 000

C.6 Equipment worth R120 000 was purchased on credit from Durable Steel on 28 February 2017 and was properly recorded.

C.7 Depreciation for the year:

| | |
|-----------|----------|
| Vehicles | R208 800 |
| Equipment | 76 800 |

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

- Know how to calculate financial indicators
- Know how to interpret financial indicators

1. Profitability How efficient is the business in its normal operating activities

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 % ALL AMOUNTS COMES FROM INCOME STATEMENT

2. Liquidity The ability of a business to pay of its short-term or immediate debt.

Financial indicators:

- * Current ratio - Ratio x : 1
- * Acid test ratio - Ratio x : 1
- * Net current assets - Rand
- * Turnover rate of stock - Times per year
- * Debtors collection period - Days
- * Creditors payment period - Days
- * Average period of stock on hand - Days

3. Solvency The ability of a business to pay off all its debt
Financial indicator: * Total assets : Total liability

4. Risk and Gearing To what extent is the business financed by loans compared to its own capital.
Financial indicators: * Debt equity ratio (the lower the ratio, the lower the risk)

* Return on total capital employed

If ROTCE is higher than interest rate on loans, then company shows positive gearing.

If ROTCE is lower than interest rate on loans, then company shows negative gearing.

5. Returns How profitable is the owner's investment in the business
Financial indicators: *Return on average owners' equity - %
 *Return earned by each partner

Activity 5: 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 |
|-----|--------------------------|---|--|
| 5.1 | Profitability | A | Can the business pay off its current or immediate debts comfortably? |
| 5.2 | Solvency | B | Are the owners (partners) earning a good return on their investment? |
| 5.3 | Liquidity | C | To what extent is the business financed by loans in comparison to own capital? |
| 5.4 | 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? |
| 5.5 | Financial risk / gearing | E | Can the business pay off all its debts comfortably? |

Activity 6: 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 | |

You are provided with information relating to Look Good Clothing. The business is owned by Lisa Looks and George Good.

REQUIRED:

- 7.1 Calculate the financial indicators as indicated in Information D.
- 7.2 Comment on whether the partners should be satisfied with each of the following aspects. Quote financial indicators with actual figures/ratios/percentages to support your answers.
- 7.2.1 The mark-up percentage
- 7.2.2 The liquidity
- 7.2.2 The return earned by the business.
- 7.2.3 The return earned by each partner
- 7.2.4 The risk and gearing

INFORMATION:**A. INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017**

| | 2017 | 2016 |
|-------------------------------|-------------|-------------|
| Sales (60% on credit) | 2 176 000 | 2 880 000 |
| Cost of sales (all on credit) | (1 280 000) | (1 920 000) |
| Gross profit | 896 000 | 960 000 |
| Other income | 108 000 | 97 600 |
| Operating expenses | (680 000) | (724 000) |
| Operating profit | 324 000 | 333 600 |
| Interest income | 15 200 | 6400 |
| Interest expense | (124 320) | (71 680) |
| Net profit | 214 880 | 268 320 |

B. BALANCE SHEET AS AT 28 FEBRUARY 2017

| 2.2 ROYAL TRADERS BALANCE SHEET ON 28 FEBRUARY 2016 | | |
|--|------------------|------------------|
| ASSETS | 2017 | 2016 |
| Non-current assets | 2 299 280 | 2 628 800 |
| Fixed assets | 2 131 280 | 2 372 800 |
| Financial assets (12% p.a.) | 268 000 | 256 000 |
| | | |
| Current assets | 673 600 | 539 200 |
| Inventories (all trading stock) | 424 000 | 336 000 |
| Trade and other receivables (all debtors) | 241 600 | 176 000 |
| Cash and cash equivalents | 8 000 | 27 200 |
| | | |
| TOTAL ASSETS | 2 972 880 | 3 168 000 |
| | | |
| EQUITY AND LIABILITIES | | |
| Owners equity | 1 868 880 | 2 440 000 |
| Capital | 1 920 000 | 2 400 000 |
| Current accounts | (51 120) | 40 000 |
| | | |
| Non-current liabilities | 680 000 | 512 000 |
| Loan: Credit Bank (15% p.a.) | 680 000 | 512 000 |
| | | |
| Current liabilities | 424 000 | 216 000 |
| Trade and other payables (all creditors) | 176 000 | 216 000 |
| Bank overdraft (18% p.a.) | 248 000 | 0 |
| | | |
| TOTAL EQUITY AND LIABILITIES | 2 972 880 | 3 168 000 |

C. NOTES TO THE BALANCE SHEET

| CAPITAL | Prins | King | Total |
|------------------------------|--------------|-------------|--------------|
| Balance at beginning of year | 1 200 000 | 1 200 000 | 2 400 000 |
| Movements | 320 000 | (800 000) | (480 000) |
| Balance at end of year | 1 520 000 | 400 000 | 1 920 000 |

| CURRENT ACCOUNTS | Prins | King | Total |
|---------------------------------|--------------|-------------|--------------|
| Profit as per Income Statement | 116 440 | 98 440 | 214 880 |
| Salaries | 48 000 | 56 000 | 104 000 |
| Interest on capital | 68 000 | 50 000 | 118 000 |
| Bonus | 8 000 | 0 | 8 000 |
| Primary distribution of profits | 124 000 | 106 000 | 230 000 |
| Final share of profits | (7 560) | (7 560) | (15 120) |
| Drawings | (66 000) | 240 000 | (306 000) |
| Retained income for the year | 50 440 | (141 560) | (91120) |
| Balance at beginning of year | 20 000 | 20 000 | 40 000 |
| Balance at end of year | 70 440 | (121 560) | (51 120) |

D. FINANCIAL INDICATORS

| | 2017 | 2016 |
|------------------------------------|--------------|-------------|
| Mark-up % | 7.1.1 | 50,0% |
| % Gross profit on sales | 41,2% | 33,3% |
| % Operating expenses on sales | 31,3% | 25,1% |
| % Operating profit on sales | 7.1.2 | 11,6% |
| % Net profit on sales | 9,9% | 9,3% |
| Solvency ratio | 2,7 : 1 | 4,4 : 1 |
| Current ratio | 1,6 : 1 | 2,5 : 1 |
| Acid test ratio | 7.1.3 | 0,9 : 1 |
| Stock turnover rate | 7.1.4 | 5,7 times |
| Period of stock on hand | 108 days | 64 days |
| Debtors' collection period | 7.1.5 | 56 days |
| Creditors' payment period | 56 days | 41 days |
| Debt equity ratio | 7.1.6 | 0,2 : 1 |
| % Return on total capital employed | 12,3% | 11,5% |
| % Return earned by the business | 7.1.7 | 12,2% |
| % Return earned by Prins | 8,3% | 12,5% |
| % Return earned by King | 7.1.8 | 11,9% |

Activity 8: You are provided with information relating to Better & Best, a clothing store owned by Mr Better and Mrs Best on 28 February 2017.

REQUIRED:

- 8.1 Calculate the following financial indicators on 28 February 2017.
- 8.1.1 Operating expenses on turnover (3)
 - 8.1.2 Acid test ratio (4)
 - 8.1.3 % Return on average owners' equity (8)
 - 8.1.4 Stock turnover rate (5)
- 8.2 Comment on the liquidity position for 2017. Quote THREE relevant financial indicators (actual ratios or figures) to support your answer. (8)
- 8.3 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)
- 8.4 Discuss THREE reasons why a business should not have too much stock. (6)
- 8.5 Will the owners of this business be satisfied with the return on equity? Explain by quoting a financial indicator to support your opinion. (4)

INFORMATION

| A. Extract from the Post Closing Trial Balance | 2017 | 2016 |
|---|-------------|-------------|
| 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 Income Statements | 2017 | 2016 |
|--|-------------|-------------|
| 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 | 2016 | 2015 |
|------------------------------------|-------------|-------------|
| 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% |