Monyetla Project – Accounting Gr 11

Lesson 3: Analysis and Interpretation of Financial Statements

QUESTION 1: SWEET AND SPICY	**(25 marks, 20 minutes)**

ANALYSIS AND INTERPRETATION

Answer the following questions on the information taken from the Financial Statements of "Sweet and Spicy", a partnership owned by S. Sucrose and C. Curry, on 30 June 2018.

Round off all calculations to ONE decimal figure.

INFORMATION:

	2018	**2017**
	R564 300	R588 720
Capital: Sucrose	R300 000	R300 000
Capital: Curry	R265 000	R265 000
Current account: Sucrose	Dr R 2 500	R 20 620
Current account: Curry	R 1 800	R 3 100
Long term loan: Savoury Bank	R125 000	-
Current assets (Including Inventories)	R 52 580	-
Inventories	?	R 35 700
Current liabilities	R 22 520	-
Net profit for the year	R225 000	-
Distribution of net profit: S Sucrose	R 83 000	-
C. Curry	R142 000	-

QUESTIONS:

1.1 The acid test ratio for 2018 is 1,3 : 1. Calculate the missing Inventory figure for 2018. (4)

1.2 Calculate the rate of stock turnover for the year. Use the Inventory amount calculated in question 4.1.
Cost of sales for 2018 is R720 000. (4)

1.3 "Sweet and Spicy" deals in all kinds of spices, condiments and flavourings for cooking. Comment on the rate of stock turnover. (4)

1.4 Calculate the return on average owner's equity for 2018. Is it satisfactory? (6)

1.5 Calculate the debt/equity ratio for 2018. Is it satisfactory? (5)

1.6 According to the partnership agreement share Sucrose and Curry the remaining profits equally. Explain why the distribution of the net profit between them is not equal. (2)

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QUESTION 2: KATZ & RABINOWITZ (14 marks, 12 minutes)

RATIO CALCULATIONS AND ANALYSIS

An extract from the Income Statement and Balance Sheet of Katz & Rabinowitz on 30 June 2019 with comparable figures for the previous accounting period, is given. The business aims for a mark-up of 40%

Round off all calculations to ONE decimal point.

REQUIRED:

2.1 Calculate the current ratio on 30 June 2019. (3)

2.2 Calculate the amount that will appear next to inventory in the Balance Sheet on 30 June 2019, if the Acid test ratio on this date is 0,75 : 1. (4)

2.3 Calculate the actual mark-up achieved on 30 June 2019. (3)

2.4 Give TWO possible reasons why the business operated below the intended mark-up of 40%. (4)

INFORMATION:

Information from the Income Statement at 30 June:

	2019	**2018**
Sales	2 825 550	2 047 500
Cost of sales	2 093 000	1 462 500

Information from the Balance Sheet at 30 June:

	2019	**2018**
Owner's equity	259 004	257 236
Long term loan	32 000	46 800
Fixed assets (carrying value)	226 836	208 156
Investments	-	8 000
Current assets	122 512	130 780
Current liabilities	58 344	42 900

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QUESTION 3: NZ TRADERS (22 marks, 18 minutes)

ANALYSIS AND INTERPRETATION

You are provided with information obtained from the financial statements of NZ Traders, a partnership with partners Nkosi and Zama.

INSTRUCTIONS:

Study the information and answer the questions that follow. Round all amounts off to one decimal.

INFORMATION:

Extract from the Income Statement for the year ended 28 February 2017, with comparative figures:

	2017
Sales	R745 500
Cost of sales	R426 000

Extract from the Appropriation account for the year ended 28 February 2017:

- Net profit for the year, R152 000.
- Total amount earned by Nkosi, R103 000.
- Total amount earned by Zama, R49 000.

Extract from the Balance Sheet on 28 February 2017, with comparative figures:

	2017	**2016**
Fixed assets (carrying value)	381 790	337 520
Fixed deposit (9% p.a.)	140 000	30 000
Current assets	113 560	121 050
TOTAL ASSETS	**635 350**	**488 570**
Owners equity	473 710	326 150
Capital: Nkosi	275 000	200 000
Capital: Zama	200 000	125 000
Current account: Nkosi	(dt) 24 690	(cr) 2 350
Current account: Zama	(cr) 23 400	(dt) 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 2017, with comparative figures:

	2017	**2016**
Gross profit on cost of sales	75%	65%
Operating expenses on sales	21%	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 per year	4,5 times per year
Debtors collection period	30 days	45 days
Creditors collection period	60 days	60 days
Debt/equity ratio	**?**	0,35:1
Total assets to Total liabilities	3,9:1	3:1
Return on total capital employed	32,8%	30,5%
% return on average equity	38%	33,2%
% return earned by Nkosi	**?**	34,4%
% return earned by Zama	28,2%	33%

QUESTIONS:

3.1 Calculate the following financial indicators for 2017:

3.1.1 Percentage net profit on sales (3)
3.1.2 Current ratio (3)
3.1.3 Debt/equity ratio (3)
3.1.4 Percentage return earned by Nkosi on his average equity (4)

3.2 Use the acid-test ratio to calculate the amount of trading stock on hand on 28 February 2017. (5)

3.3 Will partners Nkosi and Zama be satisfied with their returns in 2017? Give a reason for your answer. (4)

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QUESTION 4: PETER AND PAULA	**(53 marks, 43 minutes)**

4.1 GAAP CONCEPTS [10]

Match the following explanations in Column B with the correct GAAP concept in Column A. Write down only the letter next to the question number.

COLUMN A		**COLUMN B**	
4.1.1	Matching	A	The financial affairs of a business must be kept separate from the personal financial affairs of the owner.
4.1.2	Historical cost	B	This concept is based on the believe that the business will continue to operate in the future.
4.1.3	Going concern	C	Income earned and expenses incurred must be reported in the same financial period so that the correct net profit can be calculated.
4.1.4	Prudence	D	Financial statements must disclose items that are important to the user/reader so that correct evaluations and decisions can be made from the information provided.
4.1.5	Business entity	E	Land and buildings are reflected at a cost price of R900 000 in the financial statements although the market price is R1 200 000.
		F	All possible losses are recorded in the Income Statement but anticipated profits are not reported until they are realised.

4.2 ANALYSIS AND INTERPRETATION [43]

Peter and Paula are partners in a partnership selling sporting goods to local schools. They mark up their goods by 60% on cost. Debtors are given 30 days to pay their accounts but they have negotiated 45 days from their creditors.

REQUIRED:

Using the information given below you are required to:

4.2.1 Calculate the mark-up % achieved by the business. (3)

4.2.2 Should the owners be happy with the mark-up achieved? Why? Give 2 reasons that could account for the difference. (6)

4.2.3 Calculate the cash and cash equivalents figure if the acid test ratio is 1,6 : 1. (4)

4.2.4 Calculate the current ratio. (4)

4.2.5 Calculate the stock holding period, debtor's collection period and creditor's payment period in days – use averages in your calculations. (9)

4.2.6 Is the business exercising good liquidity control? Use your calculations in question 4.2.5 to answer the question. (7)

4.2.7 Calculate the ratio of the final profit sharing between the partners. (2)

4.2.8 Calculate the return on average owner's equity earned by the business. (5)

4.2.9 Do you think the partners should be happy with this return? Motivate your answer. (3)

INFORMATION:

The following figures have been extracted from the financial statements of Peter and Paula for the financial year ended 31 May 2008.

	2008	**2007**
Sales (80% on credit)	2 400 000	
Cost of sales (90% on credit)	1 600 000	
Interest on non-current loans	80 000	
Inventories	420 000	400 000
Trade and other receivables (all debtors)	210 000	250 000
Cash and cash equivalents	?	?
Trade and other payables (all creditors)	160 000	140 000
Non-current liabilities (interest rate 13%)	400 000	630 000

NOTES TO THE FINANCIAL STATEMENTS

CAPITAL

	PETER	**PAULA**
Opening balance	100 000	120 000
Additions (30 November 2007)	40 000	-
Withdrawal (28 February 2008)	-	(10 000)
Closing balance	**140 000**	**110 000**

CURRENT ACCOUNTS

	PETER	**PAULA**
Opening balance	10 000	(5 000)
Net profit as per Income Statement	87 000	113 750
Salaries	52 000	67 000
Bonus	8 000	-
Interest on capital	12 000	11 750
Primary distribution of profit	72 000	78 750
Final distribution of profit	15 000	35 000
Drawings	(12 000)	(14 000)
Retained income for the year	75 000	99 750
Closing balance	**85 000**	**94 750**