

PENANG SANGAM HIGH SCHOOL

P. O BOX 44, RAKIRAKI

LESSON NOTES Week 17

SUBJECT: ACCOUNTING

YEAR/LEVEL: 13

Strand 5: Analysis And Interpretation of Financial Statements

Sub-strand 5.1: Analysing Company Accounting Reports

Content Learning Outcome: Analyse and interpret the financial reports of a company to assess its performance and position.

Greetings to all my students, week 16 we have started with Strand 5: Analysis and Interpretation of Financial Statements and this week (week 17) we will continue with our coverage by attempting more activities to understand the topic better. If there are any queries do contact me in our 13C Accounting Viber group.

Activity (Ref: MOE Text Year 13 Accounting Pg. 148 Act. 5.1.1)

1. State two ways of analysing the accounting reports.
2. Explain the significance of the following ratios:
 - a. Debt ratio
 - b. Rate of Return on Shareholders' Equity
 - c. Mark Up percentage
 - d. Stock Turnover in days
3. Name four categories under which financial ratios of business entities are classified.
4. Industry analysts compare business performances vertically and horizontally within an economy. What does **horizontal** comparison mean?
5. Explain two ways in which sales figure can be analysed in a large departmental store.
6. State any two ratios used to determine the following categories of a business enterprise.
 - a. Earning capacity
 - b. Financial stability
7. State one **possible problem** the business will encounter with the following:
 - i. Over-investment in fixed asset
 - ii. Excessive amount of debtors
 - iii. Insufficient net profit

Activity (Ref: MOE Text Year 13 Accounting Pg. 130 Act. 5.1.2)

The following balances were extracted from the books of AA Marketing Company Limited on 31st December, 2019.

	\$
Authorised Capital 350 000 @ \$2 per share	700 000
Paid –Up Capital 45 000 @ \$2 per share	90 000
General Reserves	35 000
Profit and Loss Appropriation (credit balance)	20 350
Provision for Final Dividend	10 000
Accounts Receivable	30 200
Mortgage	30 000
Cost of Sales	160 000
Bank overdraft (limit \$25 000)	30 000
Non – Current Assets at Book Value	160 000
Total Expenses	39 600
Accounts Payable	25 500
Sales (Credit Sales – 65%)	275 000
Inventory at 31st December, 2019	70 000
Prepaid Expenses	650
Provision for Taxation	20 000

Additional information

1. Inventory on 1st January, 2019 was \$46 900.
2. Accounts Receivable on 1st January, 2019 was \$34 940.
3. The company normally allows 30 days credit facility to debtors and operates for 300 days in a year.

Note: Treat each question independently.

Required:

Using the following information, calculate the ratios and percentages.

(Show full working and formula)

- a. Current ratio
- b. Quick Asset ratio
- c. Earnings per Share
- d. Dividend per Share
- e. Rate of Stock Turnover
- f. Age of Debtors in days
- g. Net Profit percentage
- h. Total Expense ratio
- i. Shareholders' Equity ratio

(Solutions of these activities will be provided later for verification, Best wishes for week 17 studies, take care and Stay Safe)