

QUESTION 4**(50 marks; 30 minutes)****PARTNERSHIP: RATIO ANALYSIS AND INTERPRETATION****4.1 FIXED ASSETS****4.1.1 NOTES TO FINANCIAL STATEMENTS OF RAZZLE DAZZLETRADERS
FIXED ASSETS**

	Land and buildings	Vehicles	Equipment
Carrying value beginning of the year	402 931	160 000	✓✓ 270 000
Cost price	402 931	1 080 000	450 000
Accumulated depreciation		✓✓(920 00)	(180 000)
Movements			
Additions	✓ 600 000		✓100 000
Disposals 80 000✓ – 33 930✓			☒(46 070)
Depreciation 270 000✓ + 100 000✓ – 46 070✓ – 265 048✓		✓☒(159 999)	☒(58 882)
Carrying value at the end of the year	✓1 002 931	✓☒1	265 048
Cost price	✓1 002 931	✓1 080 000	470 000
Accumulated depreciation		☒(1 079 999)	(204 952)

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4.1.2 GENERAL LEDGER OF ORLANDO TRADERS

Dr.		ASSET DISPOSAL				Cr.	
2014 Aug	31	✓ Equipment	80 000	2014 Aug	31	Accumulated depreciation on equipment✓	33 930
					28	✓ Creditors' control	☒ 33 910
						Loss on sale of asset ✓	12 160
			80 000				80 000

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4.1 Calculate the following financial indicators:

4.1.1 **Debt/Equity Ratio** (3)

Non-current liabilities : Owners' Equity
 293 520 ✓ : 1 603 740 ✓
 0.2 : 1 ✓

4.1.2 **Percentage return earned by Razzle** (5)

$$\frac{\text{Total earned by Partner}}{\text{Average Partners' Equity}} \times \frac{100}{1}$$

$$\frac{267\,390}{\frac{1}{2}(1\,603\,740 \checkmark + 904\,530 \checkmark)} \times \frac{100}{1}$$

$$\frac{267\,390 \checkmark}{1\,254\,135 \checkmark} \times \frac{100}{1} = 21,3\% \checkmark$$

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4.2 **Do you agree with Razzle opinion that the business has a sound liquidity position? Mention TWO financial indicators to support your answer.**

Yes / No ✓
 Financial indicator and comments

Possible answers – Any Two ✓✓ ✓✓ **Must Quote Figures**

Current ratio: although it decreased from 2,6 : 1 to 1,7 : 1, it still indicated that there is adequate short term assets to cover current liabilities.
Acid Test ratio: improved from 1,8 : 1 to 1,1 : 1. Suggests that the business was holding too much stock in the previous year and was able to turn over stock more effectively in the current year.
Debtors Collection Period: Improved from 40 days to 30 days. Debtors are paying 30 days normally allowed. Indicates an improvement in the collection policy and thereby on cash management

Do not accept Creditors payment period – although improved, the business takes too long to settle short term debts

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4.3 **On the other hand Dazzle is not satisfied with her return on equity. Quote figures to support why she feels this way.**

Dazzle has maintained a positive current account balances ✓ of R3 600 in 2014 and R127 820 in 2015 ✓ as compared to Razzle's balances which as negative (R74 070) in 2014 and a lesser amount in R51 120 in 2015. ✓

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4.4

Two different ways to finance the extension of buildings**POSSIBLE ANSWERS ✓✓ ✓✓**

- The partners have increased their capital contribution by R450 000
- They increased the financial assets by R390 000 with an interest rate of only 8%
- They repaid a large portion of the loan thereby improving the debt/equity ratio.
- Their interest on loan is only 10.5% but the return on partners' equity is 37%.
- Their business can borrow more money at 10.5% p.a. interest and this would result in positive gearing

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