91177

Level 2 Accounting, 2012
91177 Interpret accounting information for entities that operate accounting subsystems

### 9.30 am Friday 30 November 2012 <br> Credits: Four

| Achievement | Achievement with Merit | Achievement with Excellence |
| :--- | :--- | :--- |
| Interpret accounting information <br> for entities that operate accounting <br> subsystems. | Interpret accounting information <br> in depth for entities that operate <br> accounting subsystems. | Interpret accounting information <br> comprehensively for entities that <br> operate accounting subsystems. |

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

## You should attempt ALL the questions in this booklet.

Pull out Resource Booklet 91177R from the centre of this booklet.
If you need more room for any answer, use the extra space provided at the back of this booklet.
Check that this booklet has pages $2-11$ in the correct order and that none of these pages is blank.
YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

You are advised to spend 60 minutes answering the questions in this booklet.
Refer to Resource Booklet 91177R to complete all questions in this booklet.
Karina Dewhurst owns K D Carpets, which specialises in selling and fitting a range of floor carpets to both domestic households and commercial businesses. Karina also offers a free carpet-fitting service for local customers.

## QUESTION ONE

(a) Refer to Resource One and Resource Three to complete the table of analysis measures below for $K D$ Carpets. Round all percentages to whole numbers.

| Analysis measure | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ |
| :--- | :---: | :---: |
| Mark-up percentage | $130 \%$ | $150 \%$ |
| Gross profit percentage | $56 \%$ | $\%$ |
| Distribution cost percentage | $32 \%$ | $31 \%$ |
| Administrative expense percentage | $15 \%$ | $\%$ |
| Net profit/profit for the year percentage | $9 \%$ | $\%$ |
| Percentage change in sales | $2 \%$ | $\%$ |
| Rate of return on total assets percentage | $20 \%$ | $14 \%$ |

## WORKING SPACE

In 2012, Karina made a decision to increase K D Carpets' mark-up percentage from $130 \%$ to $150 \%$.
(b) (i) Explain how the increased mark-up percentage affected the selling price of carpet between 2011 and 2012. In your answer, use carpet purchased by K D Carpets that cost $\$ 200$ per metre in both 2011 and 2012.
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The increase in $K D$ Carpets' mark-up percentage has resulted in at least TWO unfavourable consequences in 2012 for the business.
(ii) Identify TWO unfavourable consequences and explain how the increase in KD Carpets' mark-up percentage has resulted in those consequences. Refer to relevant analysis measures from (a) and relevant information from Resource One and Resource Two in your answer.

Unfavourable consequence (1)

Explanation of unfavourable consequence (1)
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Unfavourable consequence (2)
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Explanation of unfavourable consequence (2)
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## QUESTION TWO

| Analysis measure | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ |
| :--- | :---: | :---: |
| Distribution cost percentage | $32 \%$ | $31 \%$ |

(a) (i) Describe the trend in K D Carpets' distribution cost percentage, and explain what this trend means.
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(ii) Explain a reason for the trend in $K D$ Carpets' distribution cost percentage. Make specific reference to information from Resource Two in your answer.
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(iii) Explain how the reason for the trend in $K D$ Carpets' distribution cost percentage in (ii) above affected carpet sales in 2012.

Karina is aware that an increase in construction of new houses is forecast for 2013, but she is also aware that a competing carpet store has advertised that it can provide high-quality carpets with a speedy fitting service for all its customers.
(b) Make a justified recommendation on how Karina can take advantage of the forecast increase in construction of new houses to improve K D Carpets' profitability in 2013.
Note: Karina does NOT want to get involved in a price war with her competition.
In your answer, you should include:

- a recommendation on how Karina can improve carpet sales, using information from Resource Two
- an explanation of how the recommendation can improve K D Carpets' profitability when competing against the other carpet store.


## QUESTION THREE

(a) Complete the table below by calculating the equity ratio for 2012.

Round your calculation to $\mathbf{2}$ decimal places.

| Analysis measure | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ |
| :--- | :---: | :---: |
| Equity ratio | $0.74: 1$ | $: 1$ |

(b) Karina is concerned about the trend in K D Carpets' equity ratio between 2011 and 2012.
(i) Explain the meaning of the equity ratio calculated for 2012.
(ii) Explain, using information from Resource One, a reason for the trend in the equity ratio between 2011 and 2012.
(iii) Explain whether the trend in equity ratio between 2011 and 2012 is of concern when the reason given for the trend in (ii) is considered.
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## QUESTION FOUR

(a) Complete the table below by calculating the missing analysis measures for $K D$ Carpets. Round your calculations to $\mathbf{2}$ decimal places where relevant.

| Analysis measure | 2011 | 2012 |
| :--- | :---: | :---: |
| Current ratio | $: 1$ | $1.90: 1$ |
| Inventory turnover | 10.5 times p.a | times p.a |

(b) (i) Explain what the current ratio of 1.90:1 in 2012 means for $K$ D Carpets.
(ii) Justify how the trend in K D Carpets' inventory turnover could affect the store's ability to pay its current debts. Use information from Resource One and/ or Resource Two to support your answer.

In your answer, you should include:

- a description of the meaning of inventory turnover
- an explanation of whether $K$ D Carpets' inventory turnover is favourable or unfavourable
- an explanation of a reason for the trend in inventory turnover
- an explanation of how K D Carpets' inventory turnover affects the store's ability to pay current debts even with a current ratio 1.90:1.

Extra space if required. Write the question number(s) if applicable.

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