91177


# Level 2 Accounting, 2014 <br> 91177 Interpret accounting information for entities that operate accounting subsystems 

### 2.00 pm Wednesday 26 November 2014 <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.

Refer to Resource Booklet 91177R when answering the questions in this booklet.
Brianna owns Sweetworld, a retailer of lollies, chocolates, and fudge.

## QUESTION ONE

(a) Refer to Resources One and Two in Resource Booklet 91777R to complete the table of analysis measures below. Round your answer to one decimal place where necessary.

| Analysis measure | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ |
| :--- | :---: | :---: |
| Percentage change in sales | $3 \%$ | $\%$ |
| Mark-up percentage | $100 \%$ | $100 \%$ |
| Gross profit percentage | $50 \%$ | $\%$ |

## WORKING

At the start of the year ended 31 March 2014, Brianna entered into an agreement with her suppliers for them to supply Sweetworld with inventory at a lower cost.
(b) Justify how this agreement with Brianna's suppliers of inventory has been successful for Sweetworld. Include in your answer:

- reference to information from the table in (a) and from Resource Two
- an explanation of the meaning of a mark-up percentage of 100 per cent
- a description of what an unchanged mark-up percentage indicates about the price Brianna has charged her customers in 2014, given the agreement she has with her suppliers
- an explanation of how the unchanged mark-up percentage has contributed to the success of Sweetworld in 2014.
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## QUESTION TWO

(a) Refer to Resources One and Two in Resource Booklet 91777R to complete the table below. Round your answer to one decimal place where necessary.

| Analysis measure | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ |
| :--- | :---: | :---: |
| Distribution cost percentage | $10 \%$ | $10 \%$ |
| Administrative expense percentage | $25 \%$ | $27.1 \%$ |
| Finance cost percentage | $1.3 \%$ | $\%$ |
| Net profit percentage | $13.8 \%$ | $\%$ |

## WORKING

Refer to the table above and to Resources Two and Three in Resource Booklet 91777R to answer the following question.
(b) Justify whether Brianna should be concerned about the trend in Sweetworld's net profit percentage. Include in your answer:

- an explanation of what the trend in Sweetworld's net profit percentage means
- the main reason for the trend in the net profit percentage, with an explanation of how the trend occurred
- an explanation of how and why finance costs impacted on the trend in the net profit percentage
- an explanation of whether the trend in Sweetworld's net profit percentage is likely to continue in 2015.
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## QUESTION THREE

(a) Refer to Resources One and Two in Resource Booklet 91777R to complete the table below. Round your answer to two decimal places.

| Analysis measure | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ |
| :---: | :---: | :---: |
| Equity ratio | $0.79: 1$ | $: 1$ |

## WORKING

Refer to Resource Two in Resource Booklet 91777R to answer the following.
(b) Justify why the equity ratio is a good indicator that Sweetworld is a financially stable business.
Include in your answer:

- the meaning of the equity ratio in 2014
- an explanation making it clear what Brianna did to influence the trend in the equity ratio. The explanation should make reference to both asset AND liability information of Sweetworld
- an explanation of how the trend in Sweetworld's equity ratio will be of benefit to Brianna in 2015 if she wants to expand her shop.
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## QUESTION FOUR

Refer to Resource Two in Resource Booklet 91177R and information provided in Question One to answer this question.

Brianna prides herself on the freshness and quality of the fudges she sells in particular. The table below provides information for Sweetworld.

| Analysis measure | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ |
| :--- | :---: | :---: |
| Current ratio | $2.11: 1$ | $1.89: 1$ |
| Inventory turnover | 30.8 times per year | 36.9 times per year |

(a) Justify Sweetworld's inventory turnover.

Include in your answer:

- an explanation of the meaning of Sweetworld's inventory turnover of 36.9 times per year
- an explanation for the trend in the inventory turnover
- an explanation of why it would be expected that shops like Sweetworld have an inventory turnover of 30 times per year as a minimum.
(b) Justify how the trend in Sweetworld's inventory turnover also enhances the liquidity position of the business.
Include in your answer:
- an explanation of the meaning of a current ratio of 1.89:1
- an explanation of how the trend in inventory turnover could positively affect the ability of Sweetworld to pay current debt, even though the current ratio fell in 2014.
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