

SUPERVISOR'S USE ONLY

91177



Level 2 Accounting, 2019

91177 Interpret accounting information for entities that operate accounting subsystems

2.00 p.m. Thursday 21 November 2019 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Interpret accounting information for entities that operate accounting	Interpret accounting information in depth for entities that operate	Interpret accounting information comprehensively for entities that
subsystems.	accounting subsystems.	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 2–8 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.

TOTAL

The questions in this booklet relate to three small businesses located in the seaside town of Whangamata.

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Refer to **Resource Booklet 91177R** when answering the questions in this booklet.

QUESTION ONE

Refer to **Resources A**, **B**, and **C** to answer this question.

(a) Explain why the profitability of *Surfeze* would increase if Nami employed students part-time to cover the longer summer opening hours.

In your answer, include reference to the industry averages, and explain how this change would impact on:

· the distribution costs and distribution cost percentage

•	the profit for the year.

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Nami's accountant has recommended that she does not decrease her prices, despite her mark-up percentage being above the industry average for retail shops like hers.

(b)	Given its relatively low inventory turnover, justify why <i>Surfeze</i> needs a relatively high mark-up percentage to maintain its profitability. In your answer, include reference to the industry averages, and explain: the meaning of <i>Surfeze</i> 's inventory turnover why <i>Surfeze</i> 's inventory turnover is below the industry average why a mark-up percentage of 200% helps to maintain the profitability of <i>Surfeze</i> .				

QUESTION TWO

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Refer to **Resources A**, **B**, and **D** to answer this question.

The following analysis measures relate to *Bella Marine* for the past two years:

Analysis measure	2018	2019	Industry average
Age of accounts receivable	25 days	30 days	20 days
Liquid ratio	0.9:1	1.2:1	1:1

Why is the accountant's recommendation more likely to help Bella pay her creditors on time than offering a prompt payment discount?

Justify your answer by explaining:

- the meaning of the age of accounts receivable for 2019
- one possible reason why the age of accounts receivable is now well above the industry average
- why Bella is finding it hard to make payments to her creditors despite her liquid ratio increasing
- why offering a discount for prompt payment may not help Bella to pay her creditors on time

•	the impact of the accountant's recommendation on <i>Bella Marine</i> 's age of accounts receivable, and ability to pay creditors on time.				

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QUESTION THREE

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Refer to **Resources A**, **B**, and **E** to answer this question.

Justify Ken's decision to expand *Whangawave* to include jet-ski hire.

In your answer, explain:

- reasons for the trend in the cash flow summary given to the bank
- why the bank manager approved the loan, with reference to the cash flow summary and equity ratio of 0.7:1

the meaning of the 18% return on total assets in 2019 why Ken should not be concerned with the budgeted trend in the 2020 return on total assets.				

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

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QUESTION NUMBER	(1)	
NUMBER		