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91177



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

SUPERVISOR'S USE ONLY

Level 2 Accounting, 2014

91177 Interpret accounting information for entities that operate accounting subsystems

2.00 pm Wednesday 26 November 2014

Credits: Four

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

TOTAL

Merit

23

ASSESSOR'S USE ONLY

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 91177R** to complete the table of analysis measures below. Round your answer to one decimal place where necessary.

Analysis measure	2013	2014
Percentage change in sales	3%	20%
Mark-up percentage	100%	100%
Gross profit percentage	50%	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.

The mark-up percentage is the average amount added to the cost price of an item, to get the selling price. For example, a box of chocolates costing *Sweetworld* \$10 will have \$10

added to get the selling price of \$20.

The mark-up percentage has remained the same in 2014 as it was in 2013. From this information and the information that the suppliers lowered their sold inventory at a lower cost, it indicates that Brianna has lowered her selling price. ~~of the same box of chocolates~~ A lollypop that had a cost price of \$2 would be sold for \$4 in 2013, but in 2014, it would have a cost price of \$1 so it would ~~be sold for~~ have a lower selling price of \$2. The lower cost prices have contributed to an increase in sales for Sweetworld. ~~These customers would not~~ The lower prices have attracted more customers as they ~~would not want to~~ go to a competitor's store and pay ^{sales} can pay less for the same items. More customers has caused ^{sales} to increase by 20% from \$400,000 in 2013, to \$480,000 in 2014, which ~~is an increase~~ a ~~success~~ for ~~Sweet~~ \$ has contributed to the success of Sweetworld.

m6

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	2013	2014
Distribution cost percentage	10%	10%
Administrative expense percentage	25%	27.1%
Finance cost percentage	1.3%	2.6 %
Net profit percentage	13.8%	12.3 %

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.

The net profit percentage for Sweetworld, has decreased from 13.8% in 2013 to 12.3% in 2014. The main reason for this trend occurring is the increase in administrative expense percentage. There was an increase in the administrative expense percentage because Brianna

hired another office staff member. This would increase office wages ^{as} ~~and~~ Brianna has to pay^{extra for} the new staff member for all their work. The increase in office wages has caused the administrative expenses to increase, increasing the administrative expense percentage, causing a decrease in the net profit ^{percentage}. The finance cost^{percentage} for Sweetworld, decreased from ~~£~~ 1.3% in 2013 to 0.6% in 2014.

The decrease in the finance cost percentage would have caused the net profit percentage to increase. However, the increase in administrative expense^{percentage} was larger than the decrease in the finance cost percentage, so overall the net profit ~~percentage~~ still decreased. The decrease in the net profit percentage is unlikely to continue. The main reason for the trend in the net profit percentage is ~~the~~ Brianna hiring a new staff member. Since Brianna is not going to be hiring any new staff, in the next few years, the administrative expenses shouldn't increase, therefore the administrative expense percentage shouldn't increase, ~~therefore~~ therefore the net profit percentage shouldn't decrease.

[The finance cost decreased due to Sweetworld paying off some of their loan, decreasing the interest on loans ^{therefore} decreasing the finance cost and the finance cost percentage.]

M6

QUESTION THREE

ASSESSOR'S
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- (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	2013	2014
Equity ratio	0.79:1	0.85 :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.

For every \$1 of total assets, Brianna has financed 85 cents.

The equity ratio has increased from 0.79:1 in 2013, to 0.85:1 in 2014. A possible reason for this trend is the decrease in the loan. Brianna has repaid ~~a~~ ^{some} large ~~part~~ of the loan causing it to decrease from \$90,000 in 2013, to \$55,000 in 2014. This means less \$ is financed by the bank, increasing the equity ratio. As well as this, the total assets have decreased from \$508,000 in 2013 to \$483,000 in 2014. This was mainly caused by the investments decreasing from \$45,000 to \$2,000. This caused the total assets to decrease, increasing the equity ratio.

The equity ratio in 2014 ~~has increased~~ is 0.85:1.

This means Brianna has financed more than outsiders,
~~This means~~ ^{Therefore} the bank is more likely to give Sweetworld a
loan in the future. This would be useful to Brianna as
if she is planning to expand ^{the store} she could get more money
to help pay for it. [from the bank]

[as Sweetworld is financial stable]

ASSESSOR'S
USE ONLY

M5

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	2013	2014
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.

On average, *Sweetworld's* inventory is sold 36.9 times ~~each~~ per year.

The inventory turnover has increased from 30.8 times per year in 2013 to 36.9 times^{per year} in 2014. A possible reason for this trend is the increase in sales. Sales for *Sweetworld* have increased by 20%. This means more customers are buying from *Sweetworld*. More sweets are sold, increasing the inventory turnover for *Sweetworld*.

The inventory turnover for sweet shops needs to be high, otherwise the inventory (sweets) will go off, and customers wouldn't want to buy them. So they need to be sold quickly, therefore the inventory turnover is high.

(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.

For every \$1 of current liabilities, Sweetworld has \$1.89 of current assets. This means Sweetworld is ~~mostly~~ likely should be able to meet its current debts due in the next year.

Since there was an increase in the inventory turnover, more inventory was sold ~~throughout~~ ^{throughout} the year. This means there is an increase in cash flow for Sweetworld. This would increase the ~~current~~ ^{current} asset of bank (or accounts receivable). This means Sweetworld have more money to pay for current debts (like expenses and accounts payable). Therefore the increase ~~in~~ ⁱⁿ inventory turnover positively affected the ability of Sweetworld ~~be able~~ to pay their current debts.

[Increasing the current ratio]

ASSESSOR'S
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M6

Merit exemplar for 91177 2014		Total score	23
Q	Grade score	Annotation	
1	M6	<ul style="list-style-type: none"> Explains the mark-up percentage, with an example Links the idea that the same mark-up, when applied to a lower cost, will reduce the selling price to customers. Explains the lower selling price has resulted in increased sales from \$400 000 in 2013 to \$480 000 in 2014 	
2	M6	<ul style="list-style-type: none"> Correct calculations and correct rounding Net profit percentage explained correctly Explained the reason for decreased Net Profit % as a result of hiring a new administration person and referenced the resource material Explained that the finance cost decreased because <i>Sweetworld</i> paid of the loan, using dollar reference Explained how reducing finance cost percentage minimised the impact of the increasing administrative expense percentage Explained the decreasing Net Profit trend is unlikely to continue because of steady forecast sales growth and refers to the resource where it says Brianna has no reason to hire any more staff 	
3	M5	<ul style="list-style-type: none"> Correct calculations Explains Equity Ratio correctly in context Explains the improved Equity Ratio is a result of reducing the loan and uses dollar amounts to support explanation Explains that assets decreased with reference to dollar amounts and reference to the investment decreasing Explains that the improved Equity Ratio will benefit Brianna if she wants to expand, as it makes <i>Sweetworld</i> appear more financially stable to the banks who will lend them the money for expansion 	
4	M5	<ul style="list-style-type: none"> Answers both parts of the question Explains the reason for the improved inventory turnover is the increase in sales Explains that the reason for an inventory turnover of 30 times per year minimum is that fudge and lollies are perishable <p>In part (b), explains the current ratio correctly in context</p> <ul style="list-style-type: none"> Explains that because of the increasing inventory turnover, generating increased sales the liquidity of <i>Sweetworld</i> has improved and they are better able to meet their current debts 	