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91177

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NZQA

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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.

Not Achieved

TOTAL 10

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

WORKING

% change in sales: $\frac{(480\,000 - 400\,000)}{400\,000} \times 100$

$= 20$

gross profit %. $\frac{240\,000}{480\,000} \times 100$

$= 50$

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.

This agreement with Brianna's Suppliers of inventory has been successful as shown in table (a) we can see that the percentage change in

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sales has increased from 3% in 2013 to 20% in 2014, also the gross profit has stayed the same, 50%. From resource 2 Briannas inventory has gone down only by $1000, and her sales have increased by $80 000. ($400 000 in 2013 and $480 000 in 2014). Also her profit for Sweetworld has increased by $4000. The mark up percentage for 2014 means that Brianna is adding 100% of the cost price to the cost price to get the selling price. An unchanged mark up percentage indicates that the price ~~She is~~ Brianna is charging her customers is good and that she doesn't want to go higher although her suppliers are supplying sweetworld with an inventory at a lower cost. This has resulted in sweetworld in 2014 to be successful as due to this aggreement and unchanged mark-up percentage that Sweetworld have increased in sales and profit for the ~~g~~ year.//

A3

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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	2013	2014
Distribution cost percentage	10%	10%
Administrative expense percentage	25%	27.1%
Finance cost percentage	1.3%	0.6 %
Net profit percentage	13.8%	12.3 %

WORKING

Finance cost percentage: $\frac{3000}{480000} \times 100$
$= 0.6$

Net profit percentage: $\frac{59\,000}{480\,000} \times 100$
$=$

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 in 2014 is 12.3% means that for every $1 in sales Sweetworlds is making a 12.3¢ profit. This is a poor trend compared to 2013 where sweetworld was making 13.8¢ profit for evey $1 of

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sales. A reason for this trend is that since Brianna had to hire an extra employee (office staff) her ~~Distribution cost and~~ administrative expenses increase from $100000 in 2013 to $130000 in 2014, this has ~~increase~~ lead to a decrease in profit for the year and therefore a decrease in the net profit percentage. This trend in net profit percentage is not likely to continue in 2015 for Sweet World because according to Brianna she will not have to hire anymore office staff for the next few years.

A3

QUESTION THREE

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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

Equity ratio: $\frac{409000}{483000} = 0.85$

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.

The equity ratio in 2014 for Sweetworld is 0.85:1, this tells us that for every $1 of assets the owner, Brianna is investing 85¢. ~~Brianna~~ This is a pleasant trend from 2013 where it was 0.79:1. Brianna influenced this trend. If Brianna wants to expand ~~A~~ Sweetworld then this pleasant trend in equity ratio will benefit Brianna in 2015 as she will have to invest more money.

N2

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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	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.

Sweetworlds inventory turnover of 36.9 times per year means that sweetworlds' selling their inventory 36.9 times a year is is having to restock. This is a pleasant trend compared to 2013 (30.8 times per year) as sweetworlds is selling their inventory more often in a year so indicates that their sales are increasing. Since fudges quality and freshness goes off it is impoitont for Brianna to keep stoking the shelves with new fresher fudge, so that is why sweetworld has an inventory turnove of 30 times per year as a minimum.//

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(h) 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.

The current ratio of 1.89:1 in 2014 tells us that for every $1 of liabilities sweetworld has $1.89 of assets.//

N2

Not Achieved exemplar for 91177 2014			Total score	10
Q	**Grade score**	**Annotation**		
1	A3	• Calculates analysis measures • Describes that because Brianna is obtaining the inventory at a lower cost, the selling price to customers is good • References the fact that Sales have increased by $80 000 • Refers to the fact that the new agreement has been a success for *Sweetworld* in terms of increased sales or profit		
2	A3	• Correct calculations and correct rounding • Net profit percentage explained correctly with trend described • Explained that the reason for decreased Net Profit % was a result of hiring a new administration person, which caused administrative expenses to increase from $100 000 in 2013 to $130 000 in 2014. • Explains that the declining Net Profit trend is unlikely to continue because Brianna has no reason to hire any more staff		
3	N2	• Correct calculation • Describes the meaning of the Equity Ratio Identifies that the Equity Ratio has improved from 2013 to 2014 • Explains that the improved Equity Ratio will benefit Brianna if she wants to expand but does not explain in relation to outsiders		
4	N2	• Answers both parts of the question • Describes the trend in inventory turnover as being positive, as sales have increased • Explains that the reason for an inventory turnover of 30 times per year minimum is that fudge and lollies are perishable In part (b), explains the current ratio incorrectly		