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SUPERVISOR'S USE ONLY

Level 2 Accounting, 2015

91177 Interpret accounting information for entities that operate accounting subsystems

2.00 p.m. Friday 20 November 2015
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 2–8 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.

Achievement

TOTAL

10

ASSESSOR'S USE ONLY

Refer to Resources A, B, and C in Resource Booklet 91177R when answering the questions.

ASSESSOR'S
USE ONLY

QUESTION ONE

Perfect Pies is owned by Ashlee. The business bakes and sells pies in its shop, and also supplies pies on credit to sports clubs throughout New Zealand.

- (a) Complete the table of analysis measures below using Resource A and Resource C. (Round your answer to one decimal place where necessary, and ignore GST.)

Analysis Measures for *Perfect Pies*

Analysis Measure	2014	2015
Mark-up percentage	30%	30 %
Inventory turnover	41.3 times	43.75 times

- (b) Justify why **sales volume** is important to the profitability of a business like *Perfect Pies*. In your answer, use information from the table above and Resource C to explain:
- what the mark-up percentage in 2015 means for pies that cost \$3 to produce, and the amount of gross profit on each pie
 - the meaning of the inventory turnover in 2015
 - why it is important that with a low mark-up percentage, *Perfect Pies* has a high inventory turnover
 - how the trend in inventory turnover has contributed to improved profitability.

A mark up percentage of 30% tells Ashlee and Perfect pies that for every \$1 of costs of goods sold they sell it at the price of \$1.30 meaning the 30 cents is gross profit. What that will mean is pies cost \$3 it will mean that their selling price is \$3.90 which make 90 cent gross profit for each pie sold. The Inventory turnover shows how many times you are completely selling your inventory in that particular year. In 2015, Inventory turn over was at 43.75 times which means they comp Perfect pies completely sold their inventory 43.75 time that year or once every 8.36 days

$\left(\frac{365}{43.75}\right)$. It is important for Perfect Groes to have a high inventory turn over with a low mark-up percentage because this business deals with food which will expire within a certain period. When it's exceeded that expiration date it can no longer ~~use~~ ^{sell} the groes and therefore will become an expense. It is essential for Perfect Groes to sell these groes as quick as possible to ~~make sure that it does not~~ to avoid increasing its expenses by having to throw away groes. Which therefore a low mark-up is essential so Perfect Groes can attract customers to buy these groes. The trend in inventory turnover is ~~good~~ ^{good} ~~satisfactory~~. It raised from 41.3 times ^{in 2014} a year to 43.75 times a year in 2015. It means they are selling more stock. This trend in inventory turnover has contributed to an improved profitability because they did not increase the mark-up % from 2014 to 2015. This means they have sold more than the previous year. As a result sales increased from 780,000 in 2014 to 910,000 in 2015 which raised Gross profit from 180,000 in 2014 to 210,000 in 2015. Signifying improved profitability in 2015.

A3

QUESTION TWO

- (a) Complete the table of analysis measures below, using **Resource A** and **Resource B**. (Round your ratio answer to two decimal places.)

Analysis Measures for *Perfect Pies*

Analysis Measure	2014	2015
Equity ratio	0.76:1	0.81:1
Administrative expense percentage	10.3%	9%
Rate of return on total assets	8.8%	13.9%

In April 2014, Ashlee decided to invest more into her business. She wanted to improve the dining area of her shop for customers, upgrade the ovens used for cooking the pies, and improve the layout in the kitchen.

- (b) Justify why Ashlee's decision to invest more into *Perfect Pies* has been successful by:
- (i) Explaining how the equity ratio shows that Ashlee has invested more into the business.

The equity ratio demonstrates that for every \$1 of total assets in 2015, 81 cents was funded by Ashlee the owner. Comparing the two years of 2014 to 2015. In 2014 Ashlee had an equity ratio of 0.76:1 which shows that Ashlee has funded 76 cents of every \$1 of total assets. Whereas 2015 she funded 81 cents of every \$1 of total assets. This shows that Ashlee has invested more in her business.

- (ii) Explaining why the trend in the administrative expense percentage is positive, and the reason for this, using information from **Resource B** and **Resource C**.

The trend in administrative expenses for Serfect gives is a positive trend for Serfect gives. The reason for this is because is that her administrative expenses did not increase at a higher rate than some of her other expenses like Kitchen equipment from \$3000 to \$32000. This helped lower the percentage as well as offset the effect of the increase in Admin expenses from \$1000 to \$1000. The ^{low} increase in other types of expenses as well as fact of the sales increase from 780,000 to 910,000 meant the Admin expense percentage fell. This is a positive trend.

- (iii) Explaining what the **trend** in the rate of return on total assets shows, AND how Ashlee's decision has achieved this, using information from page 4, **Resource B**, and **Resource C**.

The rate of return on total assets of 13.9% tells Ashlee that for every \$1 in total Assets they are generating 13.9 cents in Net Profit. This is an increase from 8.8% the previous year meaning her assets are producing more profit. Ashlee investing in Ashlee deciding to invest more into her business with increased improvements in Dining furniture and kitchen ~~equipment~~ in the kitchen managed to raise her total assets, this increased investment helped increase sales because of the improvements in the dining room would of attracted more customers along with advertising increase. The increased sales helped increase Net Profit this meant with increased sales and ~~increased~~ ^{profit} ~~increased~~ ^{Investment} ~~increased~~ ^{Investment}

Increased total assets. Her rate of return increased from 8.8% to 13.9%

Alc

QUESTION THREE

- (a) Complete the table of analysis measures below, using **Resource A** and **Resource C**. (Round your answer to two decimal places for current ratio, and up to the nearest day for age of accounts receivable.)

Analysis Measures for *Perfect Pies*

Analysis Measure	2014	2015
Current ratio	3.17:1	3.33 :1
Age of accounts receivable	32 days	31 days

Perfect Pies credit terms are 30 days from date of delivery. Ashlee uses the following procedures to manage her accounts receivable:

- sends out monthly statements to sports clubs that order pies from her on credit
- sends out reminders for overdue accounts.

- (b) Justify why *Perfect Pies* is in a strong position in terms of liquidity. In your answer, explain:

- what the current ratio for 2015 means
- what the age of accounts receivable calculation for 2015 means
- how the procedures Ashlee uses effectively manage her accounts receivable
- how the trend in the age of accounts receivable enhances *Perfect Pies* liquidity position.

Perfect Pies is in a strong position in terms of liquidity. *Perfect Pies*'s current ratio for 2015 is 3.33:1, that means that for every \$1 of current liabilities she has \$3.33 of current assets. This shows a very good ability for *Perfect Pies* to repay these current debts in the next 12 months. There is a good improvement from 2014 up from 3.17:1. Ashlee's age of accounts receivable in 2015 is 31 days, which is a good improvement from last 2014 of 32 days. This means that her debtors are paying off their debts quicker.

which will get her in a strong position in terms of liquidity as she will be able to pay off largest gross liquid debts as the full due in 1 or 2 months. more quickly as she's ~~usually~~ collect debt from her debtors quicker.

Ashlee's procedures in ~~handling~~ managing her accounts receivable are effective. She sends out monthly statements to business or clubs that buy her pies on credit. as well as sending out reminders for overdue accounts, which communicates effectively to the debtor on what she is owed and is now more likely to get the ~~net~~ debt owed to her as shown from the decrease in the use of accounts receivable.

AB

Achievement exemplar for 91177 2015		Total score	10
Q	Grade score	Annotation	
1	A3	<p>This is a solid Achievement, although the calculation for inventory turnover is incorrect, as it correctly describes the markup of 90 cents and links it to the selling price of \$3.90. The response goes on to correctly explain inventory turnover. However, the incorrect reason is given for the necessity of having a high inventory turnover (to avoid spoilage), rather than the smaller gross profit requiring a high inventory turnover to cover expenses and generate decent Net Profit. The candidate does correctly explain how increased inventory turnover has enhanced increased profitability.</p>	
2	A4	<p>The Equity ratio is described as 81 cents of every \$1 of total assets has been funded by the owner and the trend is commented on in part (i). In part (ii), the trend in administrative expenses is described as positive but there is no mention of office wages being unchanged or increased Net Profit. In part (iii), the answer is a really strong answer at high Merit level; however, because of the weak answers in parts (i) and (ii) at the highest an A4 can be awarded.</p>	
3	A3	<p>The current ratio is explained and the trend commented on. The age of accounts receivable is also explained in context. However, the calculation for age of accounts receivable is incorrect, meaning that A4 could not be awarded. The procedures used to collect accounts receivable are commented on in terms of how they are working. The overall effect of these procedures for the liquidity of <i>Perfect Pies</i> is not commented on.</p>	