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2

91177



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SUPERVISOR'S USE ONLY

Level 2 Accounting, 2016

91177 Interpret accounting information for entities that operate accounting subsystems

2.00 p.m. Tuesday 22 November 2016
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 2–10 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.

Merit

TOTAL

17

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

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QUESTION ONE

Papermill is owned by Anne. The business is a stationery shop that sells books, magazines, toys, and office supplies.

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

Analysis Measures for <i>Papermill</i>		
	2015	2016
Percentage change in sales	2%	4.9 %
Mark-up percentage	95%	90 %
Mark-up percentage – industry average	95%	95%

Like other businesses in the industry, *Papermill* has faced increased costs from its suppliers for the year ended 31 March 2016.

- (b) Justify how *Papermill* successfully responded to the challenge of increased costs from its suppliers in the year ended 31 March 2016. In your answer, use information from the table above and **Resource B** to explain:
- what *Papermill*'s **mark-up percentage** in 2016 means
 - how the **trend** in *Papermill*'s mark-up percentage shows the business's response to the increased costs from suppliers
 - how and why the response from *Papermill* in 2016 was successful.

The *Papermill*'s mark-up percentage is 90% in 2016 means *Papermill* has added 90% to the cost price on goods to get the selling price. For example if a magazine was bought by *Papermill* for \$1 the mark-up of 90% will add 90 cents to the cost price to get the selling price of \$1.90. The decreasing trend in the mark-up percentage from 95% in 2015 to 90% in 2016 for *Papermill* shows that *Papermill*

has not increased the selling price mark up to compensate for the increase in cost of goods sold due to more expensive suppliers. This by responding to the increase in cost of goods sold by not increasing the mark up was a result in a positive response as papermills can cope in order to remain price competitive. Competition might have increased mark up therefore customers would buy more from papermills as their selling price is consistent. This resulted in an increase in sales from \$507,000 to \$532,000 in 2016 for Papermills.

(c) Use Resource C to answer the following questions:

(i) Describe what the trend in the net profit/profit for year percentage means.

The trend in the net profit percentage from 13.4% in 2015 to 13% in 2016 for papermills means that for every \$1 of sales papermills had 13.4 cent of profit in 2015 and they have 13 cent in 2016. //

- (ii) Explain, with an example, what impact distribution costs have had on the trend in the net profit/profit for year percentage.

The distribution cost has increased from \$110,000 to \$113,000 from 2015 to 2016 for Papermills. This means an increase in the distribution cost percentage in 2016 due to radio advertising would have increased total expenses percentage and therefore decreased profit of the year percentage for Papermills in 2016. However this is a small increase due to effective radio advertising which would have contributed to an increase in sales from 2% to 4.9% in 2016. //

E7

QUESTION TWO

- (a) Complete the table of analysis measures below using **Resources A, B, C, and D**. (Round your answer for age of accounts receivable up to the next day and inventory turnover to one decimal place.)

Analysis Measures for Papermill		
	2015	2016
Age of accounts receivable	33 days	37 33 days
Inventory turnover	5.1 times per year	4.1 times per year

- (b) Justify the importance of good management of Papermill's **age of accounts receivable**. In your answer, use information from the table above and **Resources B, C, and D** to explain:
- what an age of accounts receivable of 33 days means
 - how an age of 33 days affects Papermill's ability to pay suppliers
 - how offering a discount of 2% to credit customers influences Papermill's age of accounts receivable.

The age of accounts receivable of 33 days means that creditors of Papermill are taking on average of 33 days to pay off their accounts. This means that average is 30 days which means any longer than that would lead to bad creating bad debts. If creditors do not pay off their accounts on time Papermill will have difficulty in paying off their own suppliers and this might lead to the suppliers not paying giving goods to sell. Offering a 2% to credit customers influences would eventually lead to the creditors paying earlier within a month to receive a discount of 2%. This would encourage the creditors to pay off their accounts within a month and that will decrease age of accounts receivable as it which would decrease the average days creditors take to pay off their accounts. //

Anne launched an online store for *Papermill* in April 2016.

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- (c) Justify the impact the **preparation** for the launch of the online store had on *Papermill's* **inventory** management for the year ended **31 March 2016**. In your answer, use information from the table on page 4 and **Resource D** to explain:
- what the **2015** inventory turnover means
 - how and why the preparation for the online store launch has affected the trend in inventory turnover
 - the likely consequence of the decision to launch the online store on inventory turnover for the year ended **31 March 2017**.

The inventory turnover of 5.1 times per year for *Papermill* means inventory is completely sold out of *Papermill* 4.1 times ^{in 2016} ~~per year~~. This is a low inventory turnover however the preparation for online store launch in April 2016 has resulted in *Papermill* purchasing more inventory to meet the demand of the goods once the online store has launched in April. The preparation has led to increase in inventory from 50 000 to 85 000 which has increased average inventory and therefore decreased inventory turnover to 4.1 times a year in 2016. The likely consequence of the decision to launch the online store ~~will~~ will be an increase in the inventory turnover for year ended March 2017. As the online store will be launched resulting in increase in sales and therefore more ~~inventory~~ stock being sold resulting in an increase in sales and a decrease in inventory and therefore increasing inventory turnover for year ended March 2017. //

MS

QUESTION THREE

- (a) Complete the table of analysis measures below using **Resources A, C, and D**. (Round your answer for the liquid ratio to two decimal places and return on equity to one decimal place.)

Analysis Measures for Papermill		
	2015	2016
Liquid ratio	3.11:1	1.09:1
Return on equity	14.8%	14.9%

- (b) Justify how *Papermill's* ability to pay **immediate** debts has been affected by preparation for the launch of the online store. In your answer, use information from the table above and **Resource D** to explain:
- what the **trend** in the liquid ratio means
 - how the preparation for the launch of the online store has caused the trend
 - why Anne should not be concerned by the trend.

The unfavourable trend in equity ratio of 3.11 that ~~to~~ decrease by 3.11 from 2015 to 2.1:1 in 2016 for papemills means that for every \$1 of ~~current~~ liquid liabilities papemills had \$3.11 of liquid assets in 2015 and \$1 of liquid assets in 2016. This unfavourable trend for papemills means they will not be able to pay immediate debts that are due within the next 4-6 weeks. This will lead to being charged with overdue fees or ~~supplier~~ ^{debtors} ~~not~~ ^{from not suppliers} giving goods on ~~credit~~ ^{credit} next time. The preparations of the launch of the online store in april has caused an increase in inventory from 50,000 to 85,000 in 2016. therefore this has decreased ~~liquid~~ ^{total} assets as a inventory ^{that had been an} ~~asset~~ ^{asset} is being subtracted from total assets as inventory is not a liquid asset as it cannot be sold that

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- (c) Justify the likely impact the opening of the online store option will have on the **return on equity** for Anne in the year ended **31 March 2017**. In your answer, use information from the table on page 6 and **Resource D** to explain:

- the meaning of a 14.8% return on equity
- how the online store option could improve the return on equity for the year ended 31 March 2017.

The meaning of 14.8% return on equity ratio tells for papermill means Papemills is generating a return of 14.8% on equity invested by Anne in 2015. The online store option ~~will~~ will lead to an increase in the return on equity for year ended ~~2015~~ 31 March 2017 as it would increase sales in 2017. An increase in sales will lead to an increase in profit of the year ~~and~~ ~~as~~ less percentage as more ^{inventory} stock is being sold at a profit. Depending on the expenses more ~~to~~ sales would lead to more profit left over for Papemills ~~for~~ for year ended March 2017.

An increase in profit for Papemills will increase profit of the year. ~~percentage~~
An increase in profit of the year will result in an increase in return on equity percentage. ~~as average equity~~
This is because increased profit leads to an increase equity ~~as~~ less depending on drawings. An increase in profit of the year

Extra space if required.

Write the question number(s) if applicable.

QUESTION
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3b) The increase in inventory has increased decrease liquid ~~assets~~ assets therefore liquid ratio as more cash is tied up in the inventory due to the preparation of the online launch. Anne should not be concerned by this unfavorable trend as as soon as the website is launched sales would increase as more stock has been sold. This would increase bank which is a current asset and decrease inventory as money will no longer be tied up in inventory. The increase in bank will increase current asset and therefore increase liquid assets. Less inventory will be ~~minused~~ of current assets to get the liquid assets. Therefore as ~~so as~~ soon as the after the launch of the website inventory ~~know~~ would increase decreasing inventory and increasing bank which is a current asset. //

Extra space if required.

Write the question number(s) if applicable.

ASSESSOR'S
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3c due to an increase in sales will
cause equity to increase after drawings
has been subtracted. Average equity
will therefore increase which would
result in an increase in return
on ~~sales~~ equity percentage in 2017
for Anne //

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

ASSESSOR'S
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QUESTION
NUMBER

Merit exemplar 2016

Subject:		Accounting 2016	Standard:	91177	Total score:	17
Q	Grade score	Annotation				
1	E7	<p>The candidate has justified the response by <i>Papermill</i> to the increased costs from its supplier (has not increased the selling price to compensate for an increase in the cost of goods) with references to competitors, and has supported their answer with figures. The answer could have been improved by including industry percentages.</p> <p>Has calculated analysis measures correctly and described the meaning of the net profit percentage correctly, but has not described distribution cost percentage, and there are detracting errors between net profit and net profit percentage.</p>				
2	M5	<p>The candidate has correctly calculated analysis measures and what an age of accounts receivable of 33 days means. For a higher grade, a reason is needed for how the offering of the 2% discount influences accounts receivable, beyond encouraging customers to pay within a month, which reduces age of accounts. This is at the achieved level only.</p> <p>The reason for the decrease in inventory turnover to 4.1 times has been described in relation to the launch of the online store, and that inventory turnover will increase again as there will be an increase in sales. Candidate has incorporated figures into answers (increase in inventory from \$50 000 to \$85 000). For a higher grade the reason why sales will increase was needed.</p>				
3	M5	<p>Has explained the liquid ratio trend, and that inventory has increased, causing a decrease in liquid assets as inventory is not a liquid asset, and cash is tied up in inventory. For a higher grade, discussion that cash (liquid asset – with figures) was used to purchased Inventory (non-liquid asset) and why Anne should not be concerned about the trend was explained, but in the context of the bank being a current asset rather than a liquid asset when discussing the future impact on the liquid ratio.</p> <p>The return-on-equity ratio answer clearly explains the meaning and how the online store will increase sales and therefore profit, and increased equity depending on drawings. For a higher grade this last part needed further justification in respect to drawings, for example, remaining similar, and / or a reason as to why sales will increase.</p>				