

91177



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2

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.

TOTAL

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

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%	%
Inventory turnover	41.3 times	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.

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	: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.

- (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**.

- (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**.

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QUESTION THREEASSESSOR'S
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- (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	:1
Age of accounts receivable	32 days	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.
