

91177R



NEW ZEALAND QUALIFICATIONS AUTHORITY  
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## Level 2 Accounting, 2019

### 91177 Interpret accounting information for entities that operate accounting subsystems

2.00 p.m. Thursday 21 November 2019  
Credits: Four

#### RESOURCE BOOKLET

Refer to this booklet to answer the questions for Accounting 91177.

Check that this booklet has pages 2–4 in the correct order and that none of these pages is blank.

**YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.**

**RESOURCE A: ANALYSIS MEASURES — FORMULAE SHEET**

Mark-up %	$\frac{\text{Gross profit}}{\text{Cost of goods sold}} \times 100$
Gross profit %	$\frac{\text{Gross profit}}{\text{Sales}} \times 100$
Distribution cost %	$\frac{\text{Distribution costs}}{\text{Sales}} \times 100$
Administrative expense %	$\frac{\text{Administrative expenses}}{\text{Sales}} \times 100$
Finance cost %	$\frac{\text{Finance costs}}{\text{Sales}} \times 100$
Net profit / profit for year %	$\frac{\text{Profit for the year}}{\text{Sales}} \times 100$
Return on equity %	$\frac{\text{Profit for the year}}{\text{Average equity}} \times 100$
Rate of return on total assets %	$\frac{\text{Profit for the year} + \text{Interest}}{\text{Average total assets}} \times 100$
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Liquid ratio	$\frac{\text{Current assets} - (\text{Inventory} + \text{prepayments})}{\text{Current liabilities} - \text{Secured overdraft}}$
Equity ratio	$\frac{\text{Equity}}{\text{Total assets}}$
Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Average inventory}} = (\text{times per year})$
Age of accounts receivable	$\frac{\text{Average accounts receivable}}{\text{Credit sales} \times 1.15} \times 365 = (\text{days})$
Percentage change	$\frac{(\text{This year's figure} - \text{Last year's figure})}{\text{Last year's figure}} \times 100$

## RESOURCE B

Whangamata is a popular summer holiday destination in the Coromandel. The permanent local population of Whangamata is approximately 3 500. During the summer months, the population swells considerably, sometimes to more than 25 000.

Three of the small businesses located in the town are:

- *Surfeze*, a surf shop
- *Bella Marine*, a marine services business
- *Whangawave*, a kayak hire business

## RESOURCE C

Nami is the owner of *Surfeze*, a shop selling surfboards, surfwear and accessories. In summer, Nami opens *Surfeze* for longer hours on weekends and weekday evenings when visitors are out and about enjoying the local cafés and shops. Nami's permanent staff currently work overtime to cover the extra summer opening hours. The permanent staff would prefer to spend this time with their families. Nami is therefore considering employing students as part-time staff to cover the extra summer opening hours.

The following analysis measures were extracted from *Surfeze's* financial statements relating to the year ended 31 March 2019.

Analysis measure	<i>Surfeze</i> 2019	Industry average
Mark-up %	200%	150%
Inventory turnover	2.5 times p.a.	4 times p.a.
Distribution cost %	33%	25%
Profit for the year %	14%	15%

## RESOURCE D

Bella owns *Bella Marine*, a marine services business for local boaties in Whangamata. Many summer customers are from out of town and one off, only getting their boats serviced once at *Bella Marine*. Bella offers all customers 20-day credit terms for their service fees.

Bella's accountant is concerned that her credit management is making it harder for Bella to make payments to *Bella Marine's* creditors on time.

Bella thinks she should offer her customers a discount for prompt payment, as her electricity company does. She always pays the electricity bill first, to claim the discount. However, her accountant has recommended that Bella requires full payment in cash on delivery for all first time or one-off customers and charges an additional fee to any creditworthy local customers who do not pay within the 20-day credit terms.

## RESOURCE E

Ken is the owner of *Whangawave*, a kayak hire business. Ken has spotted a gap in the market and is in the process of expanding his business to include jet-ski hire.

Ken's accountant explained the set-up process for the jet-ski hire business:

"Setting up a jet-ski hire business requires more than simply purchasing the jet-skis and hiring them out. You need to factor in additional costs, which include:

One-off costs such as:

- staff training
- obtaining resource consent
- storage shed.

Ongoing costs such as:

- fuel and maintenance
- annual licence fees
- additional insurance."

In August 2019, Ken's bank manager approved a five-year bank loan of \$75 000 to finance the purchase of four jet-skis and a storage shed.

The bank manager's decision was based on the comparative cash flow summary below, with budgeted figures for 2020, and an equity ratio of 0.7:1 that Ken's accountant provided.

The budgeted figures assume the loan is provided and additional costs associated with jet-ski hire are paid.

<i>Whangawave</i>		
Cash Flow Summary (extract) for the year ended 31 March		
	2019 actual	2020 budgeted
Total receipts	155 000	255 000
Total payments	147 000	230 000
Net increase (decrease) in cash	8 000	25 000

Ken's accountant also budgeted that the set-up of jet-ski hire would result in a lower return on total assets for *Whangawave* in 2020 as follows:

	2019 actual	2020 budgeted
Return on total assets	18%	16%