

90980



NEW ZEALAND QUALIFICATIONS AUTHORITY  
 MANA TOHU MĀTAURANGA O AOTEAROA

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SUPERVISOR'S USE ONLY

## Level 1 Accounting, 2014

### 90980 Interpret accounting information for sole proprietors

2.00 pm Thursday 13 November 2014  
 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Interpret accounting information for sole proprietors.	Soundly interpret accounting information for sole proprietors.	Comprehensively interpret accounting information for sole proprietors.

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 questions in 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**

**11**

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**QUESTION ONE: PROFITABILITY**

Refer to **Resource One** and **Resource Two** from **Resource Booklet 90980R** to answer this question.

- (a) Complete the Analysis Measures chart below for *Fully Fruity*, calculating the mark-up and gross profit percentages for 2014.

**Note:** Percentages are to be rounded to the nearest whole number.

**Analysis Measures chart for *Fully Fruity***

Analysis Measure	2013	2014
% Change in sales	30%	20%
Mark-up %	200%	150%
Gross profit %	67%	60%

- (b) Explain what the 2014 percentage change in sales of 20% means for *Fully Fruity*.

Fully Fruity has sold less goods this year compared to what she sold in 2013. Fully Fruity has sold 10% less goods this year.

- (c) Fully explain ONE possible reason for the trend in the mark-up percentage from 2013 to 2014 for *Fully Fruity*.

One possible reason for *Fully Fruity*'s markup percentage would be increase in cost of goods sold. As mentioned that berry prices were high in the last year which would equate to why the berry prices are high this year. Markup % would ~~decrease~~ increase decrease if the cost of goods sold is higher than the rate of sales.

- (d) Ula is not pleased with the **gross profit percentage**. Justify a recommendation that would allow *Fully Fruity* to **improve the gross profit percentage** for *Fully Fruity*, **without increasing the selling price**.

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Recommendation:

~~Source a cheaper supplier of  
Berry.~~

Source cheaper fuel supplier ✓

Justification:

Ula should source a cheaper supplier for <sup>berry</sup> the ingredients with the same quality of goods or better. Sourcing a cheaper supplier will reduce the cost of goods sold therefore increase markup and gross profit percentage.

Ula can also source a cheaper fuel supplier. Sourcing a cheaper fuel supplier would reduce distribution costs therefore decreasing the ~~cost~~ cost of goods sold hence increasing markup and gross profit percentage ✓

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## QUESTION TWO: EXPENSES

Refer to **Resource One** and **Resource Three** from **Resource Booklet 90980R** to answer this question.

- (a) Complete the Analysis Measures chart below for *Fully Fruity*. Percentages for 2013 are provided.

**Note:** Percentages are to be rounded to the nearest whole number.

**Analysis Measures chart for *Fully Fruity***

Analysis measure	2013	2014
Distribution cost %	15%	20%
Profit for the year %	50%	40%

- (b) Write a report to explain to Ula the **profit for the year percentage** for *Fully Fruity*.

Your report should include:

- the meaning of the profit for the year percentage for 2013
- a possible reason for the trend in the distribution cost percentage
- a recommendation for how *Fully Fruity* could improve the profit for the year percentage
- a justification for how your recommendation could improve the profit for the year percentage.

The profit for the year percentage shows the amount of profit you made versus the amount of goods you have sold. One possible reason for the decrease in profit for the year would be the trend in the distribution cost percentage. One possible reason for this could be the increase of Berry prices like Ula has mentioned. This would increase distribution cost which would increase the cost of goods sold therefore decreases gross profit percentage and markup percentage decreasing the

Profit for the year percentage. One way you could increase the profit for the year percentage would be to decrease the cost of goods sold. This could be done by a possible recommendation would be to source a cheaper supplier for berry as was mentioned the prices for berries were high. By decreasing the berries cost you would decrease the distribution cost percentage therefore decreasing cost of goods sold. This would increase mark up and gross profit percentage which would increase the profit for the year percentage.

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**QUESTION THREE: LIQUIDITY**

Refer to **Resource One** and **Resource Four** from **Resource Booklet 90980R** to answer this question.

- (a) Complete the Analysis Measures chart below for *Fully Fruity*. Ratios for 2013 are provided.  
**Note:** Ratios are to be rounded to **one decimal place**.

**Analysis Measures chart for *Fully Fruity***

Analysis measure	2013	2014	Industry average
Current ratio	2.5:1	3.3	2.0:1
Liquid ratio	2.3:1	3.1	1.5:1

- (b) Explain what the 2013 **liquid ratio** of **2.3:1** means for *Fully Fruity*.

Fully Fruity has \$2.30 worth of liquid assets to meet every \$1 of liquid liabilities.

- (c) Fully explain ONE possible reason for the increase in the **liquid ratio** of *Fully Fruity*. In your answer, ensure that you include how this relates to the current ratio.

One possible reason why the liquid ratio has increased would be if Fully Fruity has paid off one of its current liabilities. This would increase the liquid and current ratio as there are less liabilities. This is highly possible since Fully Fruity hasn't purchased any or sold any Non-current assets over the past year. Liabilities decreasing than current liabilities would improve liquid and current ratio and improve since the business now has more current assets than current liabilities.

- (d) Justify a recommendation that would allow *Fully Fruity* to **improve** their business in the future by bringing the **current and liquid ratios** to be closer to the **industry averages**.

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Recommendation:

Ula could buy purchase a new truck

Justification:

By purchasing a new truck Ula would purchase a non current asset. It would decrease the current asset bank because of the loan repayments made. This would decrease the current and liquid ratio as it decreases the current asset bank. By purchasing a new truck Ula could improve his distribution costs in the long run, As if he purchases a new truck it would burn less fuel costing less distribution cost. Also if Ula bought a bigger truck he would be able to expand his business in the future and be able to accommodate more staff at once therefore be able to cater more customers potentially increasing sales by increasing his customer service rate

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Achievement exemplar for 90980 2014		Total score	11
Q	Grade score	Annotation	
1	A4	The candidate calculates the percentages correctly and describes a reason for the trend in mark-up percentage and provides a correct and incorrect recommendation on how to improve the gross profit percentage. The candidate does not reach Merit because some context and some links are missing.	
2	A3	The candidate calculates the percentages correctly and shows some Achievement evidence but incorrectly identifies cost of goods sold as a distribution cost percentage.	
3	A4	The candidate calculates the percentages correctly, describes the meaning of the liquid ratio, and provides some Merit evidence in the recommendation. Had the candidate explained the liquid ratio or the reason for the increase in liquid ratio, then they could have achieved Merit in this question.	