

90980



NEW ZEALAND QUALIFICATIONS AUTHORITY  
 MANA TOHU MĀTAURANGA O AOTEAROA

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## 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.**

**Excellence**

**TOTAL** **23**

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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*.

The 2014 percentage change in sales of 20% means for fully Fruity that sales have increased 20% from 2013 to 2014.

- (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 the trend in the mark-up percentage from 2013 to 2014 for fully Fruity is that the prices of the berries Ula has had to buy increased due to bad weather. <sup>this would increase costs of goods</sup> ~~this would increase costs of goods~~ sold. If Ula kept the selling price the same, costs of goods sold <sup>have</sup> increased which <sup>would</sup> lead to a decreased mark up percentage from 200% to 150% in 2014.

- (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:

Ula could ~~find a cheaper~~ grow her own fruit

Justification:

If Ula grew her own fruit to use as ingredients for Fully Fruity, it would improve the gross profit percentage. Growing her own fruit would be cheaper than having to buy from a local farmer. This would decrease the costs of goods sold and by keeping the selling price the same, would increase the markup percentage on Fully Fruity's Smoothies and juices. ~~This would increase the~~  
By increasing the markup percentage this would increase the gross profit, ~~which would increase the~~  
~~gross profit percentage~~ and sales would hopefully stay the same as the selling price ~~hasn't~~ hasn't increased, which would increase the 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 of the year percentage for 2013 of <sup>50%</sup> ~~Fully Fruity~~ means for Fully Fruity that for every \$1 of sales, 50 cents is profit made for Fully Fruity.

A possible reason for the trend in the distribution cost percentage from 2013 to 2014 is that Fully Fruity has hired more staff to maintain there excellent customer service as the Fully Fruity increases in popularity. By hiring more staff this would increase the wages expense, which would increase the distribution costs and increase the distribution cost percentage for Fully Fruity.

~~Ula could start advertising~~

~~Ula could find a cheaper way to get electricity for the truck to make the smoothies and juices.~~

~~If Ula found a cheaper way to get electricity for the truck instead of paying for petrol~~

Ula could find a cheaper petrol supplier.

If Ula found a cheaper petrol supplier it would decrease Fully Fruity's petrol expense, which would decrease distribution costs, ~~and the distribution~~ this would increase the profit for the year and increase the profit of the year percentage of Fully Fruity. ✓

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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	3.3:1	2.0:1
Liquid ratio	2.3:1	3.1:1	1.5:1

- (b) Explain what the 2013 **liquid ratio** of **2.3:1** means for *Fully Fruity*.
- The 2013 liquid ratio of 2.3:1 means for *Fully Fruity* that for every \$1 of liquid liabilities, *Fully Fruity* has \$2.30 of liquid assets, this suggests that *Fully Fruity* should be able to repay their debts as they fall due in the next 4-6 weeks.
- (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 for the increase in the liquid ratio of *Fully Fruity* is that Ula made a cash contribution to her business. A cash contribution would increase the ~~current~~ liquid ratio as it would increase the liquid asset bank and not affect any of the liquid liabilities, increasing the liquid ratio. ~~By~~ A cash contribution would also increase the current ratio because it would increase the asset bank which is a liquid and current asset, and would have no effect on the current liabilities, ~~also~~ also increasing the current ratio.

- (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 put some of her money into a term deposit.

Justification:

If Ula put some of the money from her bank into a term deposit it would help to improve Fully Fruity in the future and bring ~~down~~ the current and liquid ratios closer to the industry average. It would improve Fully Fruity in the future because the money Ula invested would be earning interest, so it will bring the current and liquid ratios closer to the industry average by decreasing the asset bank, which is both a current and liquid asset, and it wouldn't have any affect on the current or liquid liabilities bringing the liquid and current ratios closer to the industry averages.

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<b>Excellence exemplar for Accounting 90980 2014</b>		<b>Total score</b>	<b>23</b>
<b>Q</b>	<b>Grade score</b>	<b>Annotation</b>	
1	E8	This response provides consistent evidence towards Excellence. The candidate demonstrates the ability to incorporate the resource into their answer and includes all the links to the components of the formula being asked for.	
2	E8	This response provides consistent evidence towards Excellence. The candidate demonstrates the ability to incorporate the resource into their answer and includes all the links to the components of the formula being asked for.	
3	E7	This response provides consistent evidence towards Excellence. The candidate demonstrates the ability to incorporate the resource into their answer and includes all the links to the components of the formula being asked for.	