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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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.

Merit

TOTAL 15

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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*.

A percentage change in sales of 20% in 2014 for fully fruity means that, for every dollar of sales in 2013, fully fruity is selling ~~$1.20 worth of sales in 2014~~ 20 cents more in 2014

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

A possible reason for the decreasing mark up percentage from 200% in 2013 to 150% for Fully Fruity in 2014 is that due to the bad weather the price of berries has increased which increases Fully fruity's cost of goods sold, meaning they have to reduce their mark up % to keep the ~~pric~~ sales price the same and stay competitive.

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(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**.

Recommendation:

fully fruity could grow their own fruit or find a cheaper supplier

Justification:

By growing their own fruit or finding a cheaper supplier, fully fruity would reduce their cost of goods sold, this would increase fully fruity's gross profit and therefore increase fully fruity's gross profit percentage, increasing the trend

~~(Assuming Fully Fruity's Sales figure stays the same)~~

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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.

A profit for the year percentage for fully fruity of 50% in 2013 means that for every dollar of sales, 50 cents was net profit leaving 50 cents to pay off fully fruity expenses. In 2014, fully fruity's profit for the year percentage fell to 40%, this means that for every dollar of sales 40% was net profit leaving 60 cents to pay off fully fruity's expenses.

The profit for the year percentage is following a decreasing trend and a possible reason for this could be the increase in distribution cost percentage. A distribution cost percentage for fully fruity of 20% in 2014 means

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that for every dollar of sales, 20cents is ~~going~~ used to pay off distribution costs/.

~~By reducing distribution costs by finding~~

A possible way that fully fruity could reduce her distribution cost % and therefore improve ~~their~~ their Profit for the year Percentage is by buying a more efficient petrol generator for Ulla's truck. By buying a more efficient generator, ~~Ulla~~ fully fruity would consume less petrol which is a distribution cost, reducing the distribution cost percentage and therefore increasing their Profit for the year percentage.//

QUESTION THREE: LIQUIDITY

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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*.

A liquid ratio of 2.3:1 ~~mean~~ for Fully fruity in 2013 means that for every dollar of liquid liabilities, Fully fruity has $2.30 ~~of~~ of liquid assets with which to pay off the liquid liabilities. This is satisfactory as fully fruity would be able to pay off all their immediate debts within the next 6 months and still have enough to maintain business operations.

(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.

~~Fully fruity's liquid ratio is following an increasing trend from 2.3:1 in 2013 to 3.1:1. Fully fruity's current ratio has also increased from 2.5:1 in 2013 to 3.3:1 in 2014.~~

~~As both current ratio and liquid ratio have increased, Bank must have increased. Bank is ~~an~~ a current asset and is present in both current and liquid ratio calculations.~~

A possible reason for the increase in liquid ratio is that ~~the~~ fully fruity's owner, Ula, could of invested more money into the business, raising the bank figure and therefore raising the liquid 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:

Purchasing more/better equipment for fully fruity//

Justification:

By purchasing more/better equipment, fully fruity's product quality will increase, this will lead to an increase in sales and help ~~not~~ increase and maintain fully fruity's health as a business. This will also decrease ~~the~~ fully fruity's current assets as more money will be invested from Bank, a current asset, to equipment a non-current asset. This will reduce fully fruity's liquid and current ratios, bringing them closer to the industry averages//

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Merit exemplar for 90980 2014		Total score	15
Q	**Grade score**	**Annotation**	
1	M5	The candidate provides Merit evidence in including context from the resource in their answer. This candidate does not reach Excellence because the links of the components in the formula are not complete.	
2	M5	The candidate provides one piece of Merit evidence in this answer by including a realistic way to improve the profit for the period in context of the business. The candidate does not reach Excellence in this part because the links to the components in the formula are not complete.	
3	M5	The candidate provides some Merit evidence in this answer by coming up with a realistic recommendation to improve the current and liquid ratios. Again, this candidate does not reach Excellence in this part, as the links to the components in the formula are not complete.	