

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.

Not Achieved

TOTAL

3

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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% 200% 200%
Gross profit %	67%	60% 70%

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

For every ~~percentage~~ percentage change in sales 20% in 2014 has decrease ^{from} ~~20%~~ 20% in 2013 for *Fully Fruity*.

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

The mark-up percentage has decreased because its cost has decreased and ~~was~~ ~~decreased~~ has ^{increase} ~~decrease~~, therefore mark-up profit decrease which decreases the mark-up percentage.

- (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:

Fully Fruity can invest more cash in hands, which increase gross profit and increase gross profit percentage.

Justification:

As Fully Fruity do advertising which will attract more customers and invest cash in hands for bank, an increase its profit, therefore increase in its gross profit percentage without increasing selling price, as it will stay as its original price.

NO

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% 20%
Profit for the year %	50%	40% 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.

Fully Fruity should increase its profit percentage and it will increase the profit percentage for the year. It will increase its selling price of inventory, this will increase the sales dollar which will increase the profit and the net profit for the year.

N2

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	2.9:1	2.0:1
Liquid ratio	2.3:1	2.8:1	1.5:1

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

For every \$1.00 of liquid liabilities, ~~the~~ ^{the} business has 2.3 of assets. This business will be able to pay its debts in next 3 months, accounting period. The liquid ratio has risen from 2.5 in 2013 to 2.9 in 2014 for *Fully Fruity*.

- (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.

An increase in accounts payable, a result of purchasing new equipment, this has include the liquid liability payables and an increase in inventory which will result in making new machines new so it will provide more fresh fruit. ~~the~~ ^{the} *Fully Fruity*, increase will include the current ~~to~~ assets to increase.

- (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:

Fully Fruity can increase their accounts payable, ~~and~~ ~~increase~~ ~~the~~ ~~current~~ ~~ratio~~ ~~and~~ ~~liquid~~ ~~ratio~~ and increase in bank ~~assets~~ ~~result~~ in an increase in profit for Fully Fruity.

Justification:

This will increase the liquid ratios in accounts payable and increase the current ratio in bank, therefore there is an increase in profit for Fully Fruity.

NI

Not Achieved exemplar for 90980 2014		Total score	03
Q	Grade score	Annotation	
1	N0	The candidate calculates the percentages correctly but provides no other correct evidence.	
2	N2	The candidate calculates the percentages correctly and has a description of “increasing the selling price” that provides some evidence towards a description of improving the profit for the year %.	
3	N1	The candidate shows a description of the liquid ratio as being the ability to pay its debts in the next 1–3 months, but no other evidence in the question.	