

91177



NEW ZEALAND QUALIFICATIONS AUTHORITY  
 MANA TOHU MĀTAURANGA O AOTEAROA

2

SUPERVISOR'S USE ONLY

## Level 2 Accounting, 2014

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

2.00 pm Wednesday 26 November 2014

Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Interpret accounting information for entities that operate accounting subsystems.	Interpret accounting information in depth for entities that operate accounting subsystems.	Interpret accounting information comprehensively for entities that operate accounting subsystems.

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 the questions in this booklet.**

Pull out Resource Booklet 91177R from the centre of 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 2–11 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**

**17**

ASSESSOR'S USE ONLY

Refer to **Resource Booklet 91177R** when answering the questions in this booklet.

Brianna owns *Sweetworld*, a retailer of lollies, chocolates, and fudge.

### QUESTION ONE

- (a) Refer to **Resources One and Two** in **Resource Booklet 91177R** to complete the table of analysis measures below. Round your answer to one decimal place where necessary.

Analysis measure	2013	2014
Percentage change in sales	3%	20 %
Mark-up percentage	100%	100%
Gross profit percentage	50%	50 %

#### WORKING

Changes in Sales:

$$\frac{48(480000 - 400000)}{400000} \times \frac{100}{1} = 20\%$$

Gross profit:

$$\frac{(480000 - 240000)}{480000} \times \frac{100}{1} = 50\%$$

At the start of the year ended 31 March 2014, Brianna entered into an agreement with her suppliers for them to supply *Sweetworld* with inventory at a lower cost.

- (b) Justify how this agreement with Brianna's suppliers of inventory has been successful for *Sweetworld*. Include in your answer:
- reference to information from the table in (a) and from **Resource Two**
  - an explanation of the meaning of a mark-up percentage of 100 per cent
  - a description of what an **unchanged mark-up percentage** indicates about the **price** Brianna has charged her customers in 2014, given the agreement she has with her suppliers
  - an explanation of how the unchanged mark-up percentage has contributed to the success of *Sweetworld* in 2014.

Mark-up percentage of 100% means ~~every~~ for every dollar of goods sold, ~~1~~ dollar has been add to the selling price.  
Due to Brianna's ~~agreement~~ agreement with her suppliers for them

to supply Sweetworld with inventory at a lower cost, unchanged mark-up ~~percent~~ percentage means that ~~Brian Brianna~~ Brianna has decreased the selling price. The decrease in selling price has lead to a large increase of ~~sales~~ Sweetworld's sales. Percentage change in sales ~~is~~ from 3% in 2013 to 20% in 2014, which is a success of Sweetworld in 2014.

AK

## QUESTION TWO

- (a) Refer to **Resources One and Two** in **Resource Booklet 91777R** to complete the table below. Round your answer to one decimal place where necessary.

Analysis measure	2013	2014
Distribution cost percentage	10%	10%
Administrative expense percentage	25%	27.1%
Finance cost percentage	1.3%	0.6 %
Net profit percentage	13.8%	12.3 %

## WORKING

Finance cost:

$$\frac{3000}{480000} \times 100 = 0.625$$

Net profit:

$$\frac{59000}{480000} \times 100 = 12.3$$

Refer to the table above and to **Resources Two and Three** in **Resource Booklet 91777R** to answer the following question.

- (b) Justify whether Brianna should be concerned about the trend in *Sweetworld's* net profit percentage. Include in your answer:
- an explanation of what the trend in *Sweetworld's* net profit percentage means
  - the **main** reason for the trend in the net profit percentage, with an explanation of how the trend occurred
  - an explanation of how and why **finance** costs impacted on the trend in the net profit percentage
  - an explanation of whether the trend in *Sweetworld's* net profit percentage is likely to continue in 2015.

The trend in *Sweetworld's* net profit percentage means that ~~is~~ *Sweetworld* has decreased in net profit from 13.8% in 2013 to 12.3% in 2014. In 2013, 13.8 cent <sup>of net profit</sup> has been made from every dollar of sell earned. In 2014, 12.3 cent of net profit has been ~~is~~ made from every dollar of sell earned. This is

a poor trend.

The main reason for the ~~poor~~ trend in Sweethouse's net profit percentage is Brianna ~~is~~ has employed an extra permanent office staff person this year. so the ~~administrative~~ administrative expenses increased ~~to~~ which decreased the net profit.

~~The~~ Finance Cost has reduced the decrease of net profit in a very ~~small~~ small amount, because ~~this is~~ ~~to~~ the finance cost percentage has decreased from 1.3% in 2013 to 0.6% in 2014. This is less expense so more profit.

The trend in Sweetworld's net profit percentage ~~is~~ ~~to~~ is unlikely to continue in 2015, because this year's ~~net~~ <sup>net</sup> profit percentage only increase because Brianna had to employ an extra permanent office staff, due to the important office ~~was~~ related task not being completed, and she is confidence confident ~~that~~ <sup>that</sup> she won't have to ~~employ~~ hire any more office staff in the next few years. ~~the net profit~~  
~~Sweetworld's net profit percentage may may even increase~~

AC

## QUESTION THREE

ASSESSOR'S  
USE ONLY

- (a) Refer to **Resources One and Two** in **Resource Booklet 91777R** to complete the table below. Round your answer to two decimal places.

Analysis measure	2013	2014
Equity ratio	0.79:1	0.85 :1

## WORKING

$$\frac{409000}{483000} \times 100 = \frac{84.679}{20.846}$$

Refer to **Resource Two** in **Resource Booklet 91777R** to answer the following.

- (b) Justify why the equity ratio is a good indicator that *Sweetworld* is a financially stable business.  
Include in your answer:
- the meaning of the equity ratio in 2014
  - an explanation making it clear what **Brianna** did to influence the **trend** in the equity ratio. The explanation should make reference to both asset AND liability information of *Sweetworld*
  - an explanation of how the trend in *Sweetworld's* equity ratio will be of benefit to Brianna in 2015 if she wants to expand her shop.

Equity ratio in 2014 means every dollar of assets that Sweetworld owns, the owner Brianna has funded 85 cent.

This is a good trend.

Brianna has ~~increase~~ increased the equity, ~~and~~ <sup>and</sup> decreased ~~total to assets~~ ~~and liabilities~~ ~~to influence the trend~~. Total assets

and liabilities to influence the trend. ~~Decrease~~ Decrease in

~~liabilities~~ ~~liabilities~~ means more cash has been invested by Brianna to

repay the liabilities and decrease in assets means there's

less ~~cash~~ money Brianna ~~have~~ ~~to~~ have to invest in

~~to~~ Sweetworld or less loan Brianna <sup>will</sup> ~~has~~ have to borrow to buy

the asset. Brianna has decreased liabilities by repay almost

half of last year's loan \$90000 leaving this year's ~~loan~~ loan

\$55000, and she has decreased assets by decrease

~~more~~ money in bank from last year's \$10000 to this year's \$3500. ~~And~~ And ~~de~~ decrease investment from last year's ~~\$~~ \$4500 to this year's \$2200.

The trend in Sweetworld's equity ~~rat~~ ratio will be of benefit to Brianna in 2015 if she wants to ~~exp~~ expand her shop, because now that she has ~~a~~ such small ~~as~~ amount of loan, she can easily ~~be~~ get a new loan and open an other shop.

## QUESTION FOUR

ASSESSOR  
USE ONLY

Refer to **Resource Two** in **Resource Booklet 91177R** and information provided in Question One to answer this question.

Brianna prides herself on the freshness and quality of the fudges she sells in particular. The table below provides information for *Sweetworld*.

Analysis measure	2013	2014
Current ratio	2.11:1	1.89:1
Inventory turnover	30.8 times per year	36.9 times per year

(a) Justify *Sweetworld's* inventory turnover.

Include in your answer:

- an explanation of the meaning of *Sweetworld's* inventory turnover of 36.9 times per year
- an explanation for the trend in the inventory turnover
- an explanation of why it would be expected that shops like *Sweetworld* have an inventory turnover of 30 times per year as a minimum.

Sweetworld's inventory ~~turnover~~ turnover of 36.9 times per year means that during the year Sweetworld has been out of stock for 36.9 times. A good trend has been made in the inventory turnover, from 30.8 times per year in 2013 to 36.9 times per year in 2014. This is a good trend because it means more sales ~~has been made~~ are earned. Shops like ~~Sweethouse~~ Sweetworld have an inventory turnover of 30 times per year as a minimum, because they are selling food (lollies, chocolates and fudges.) which has an ~~expi~~ <sup>expi</sup> ~~experie~~ <sup>experie</sup> date. If there is a low inventory turnover then it mean loss on inventory due to <sup>food</sup> expired (lollies, chocolates and fudges.). //

not sure  
how to spell



(b) Justify how the trend in *Sweetworld's* inventory turnover also enhances the **liquidity** position of the business.

Include in your answer:

- an explanation of the meaning of a current ratio of 1.89:1
- an explanation of how the trend in inventory turnover could **positively** affect the ability of *Sweetworld* to pay current debt, even though the current ratio fell in 2014.

Current ratio of 1.89:1 means for every dollar of ~~de~~ current debt, *Sweetworld* have ~~to~~ \$1.89 ~~to~~ of assets to repay it.

The ~~to~~ trend in inventory turnover could positively affect the ability of *Sweetworld* to pay current debt, even though the current ratio fall in 2014, because the increase in inventory turnover has ~~of~~ generated *Sweethouse* more sales, this means increase ~~of~~ money on hand and make positive affect towards repaying ~~Sweetworld's~~ *Sweetworld's* current debts. //

Achievement exemplar for 91177 2014		Total score	17
Q	Grade score	Annotation	
1	A4	<ul style="list-style-type: none"> <li>Explains the mark-up percentage</li> <li>Describes the idea that because Brianna is obtaining the inventory at a lower cost, the selling price to customers decreases.</li> <li>Explains that the lower selling price has resulted in increased sales from 3% to 20%, which means the new agreement has been a success for <i>Sweetworld</i></li> </ul>	
2	A4	<ul style="list-style-type: none"> <li>Correct calculations and correct rounding</li> <li>Net profit percentage explained correctly with the trend described</li> <li>Explained that the reason for decreased Net Profit % as a result of hiring a new administration person</li> <li>Explained that the finance cost % decreased from 1.3% in 2013 to 0.6% in 2014</li> <li>Explained the decreasing Net Profit trend is unlikely to continue because of steady forecast sales growth and refers to the resource where it says Brianna has no reason to hire any more staff</li> </ul>	
3	A4	<ul style="list-style-type: none"> <li>Correct calculation</li> <li>Describes the Equity Ratio correctly in context</li> <li>Describes that the improved Equity Ratio is a result of reducing the loan and uses dollar amounts to support explanation</li> <li>Explains that assets decreased with reference to dollar amount (may or may not reference investment – this candidate did)</li> <li>Explains that the improved Equity Ratio will benefit Brianna if she wants to expand, as it makes <i>Sweetworld</i> appear more financially stable because they have less money financed by debt, so therefore a bank will be more likely to lend them the money for expansion</li> </ul>	
4	M5	<ul style="list-style-type: none"> <li>Answers both parts of the question</li> <li>Explains the reason for the improved inventory turnover is the increase in sales</li> <li>Explains that the reason for an inventory turnover of 30 times per year minimum is that fudge and lollies are perishable</li> </ul> <p>In part (b), explains the current ratio in context</p> <ul style="list-style-type: none"> <li>Explains that because of the increasing inventory turnover generating increased sales the liquidity of <i>Sweetworld</i> has improved and they are better able to meet their debts as they fall due in the current accounting period.</li> </ul>	