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91177



Draw a cross through the box (X) if you have NOT written in this booklet

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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 2 Accounting 2024

91177 Interpret accounting information for entities that operate accounting subsystems

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 2–8 in the correct order and that none of these pages is blank.

Do not write in the margins (// // //). This area will be cut off when the booklet is marked.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

Achievement

TOTAL 11

Refer to ALL the resources in **Resource Booklet 91177R** to answer the questions in this examination. You can refer to *Strut Your Stuff* as SYS in your answers.

QUESTION ONE

The information in the tables below and at the top of page 3 was extracted from *Strut Your Stuff's* financial statements relating to the financial years ended 31 March.

Analysis measure	2023	2024
Percentage change in sales	+6.1%	+5.2%
Total expense %	43.2%	48.9%
Profit for the year %	5.6%	-1.5%

Sam is concerned that *Strut Your Stuff* has a \$3562 loss for the year in 2024 despite the increase in sales and gross profit.

- (a) Justify how the increase in expenses has contributed to the trend in *Strut Your Stuff's* profit % from 2023 to 2024. In your answer explain:
- the meaning of the total expense percentage of 48.9% in 2024
 - one possible reason for the trend in total expense percentage from 2023 to 2024, other than the increase in finance costs
 - the link between the trends in total expense percentage and the profit for the year percentage from 2023 and 2024.

Total expense percentage in 2024 means that 48.9% of net sales is put towards Administrative/distribution/finance expense. A reason the total expense % has increased from 43.2% in 2023 to 48.9% in 2024 is because of the increased insurance paid, increasing the administrative expenses from 28,000 in 2023 to 35,000 in 2024. The increase in insurance for lost inventory and the overall loss in inventory has meant that there is less inventory for customers to potentially buy, decreasing possible sales and increasing expenses for insurance.

The increased total expense is due to the camera purchase, increasing distribution costs from 65,000 in 2023 to 75,000 in 2024. This increase in expenses has led to a decrease in profit for the year % as even though sales increased by \$1361 in 2024, the expenses have also increased, leading to a lower profit of the year %.

Analysis measure	2023	2024
Finance cost %	0.9%	1.8%
Equity ratio	0.49:1	0.39:1

CA - more bank taken out.

- (b) Discuss the relationship between *Strut Your Stuff's* equity ratio and finance cost percentage. In your answer:

- state and explain the reason for the trend in finance cost percentage increasing from 0.9% in 2023 to 1.8% in 2024
- explain how this reason has contributed to the trend in equity ratio
- include dollar amounts.

The finance cost percentage is the percentage of the net sales that is put into finance costs. ~~to pay for~~ ^{for} *Strut Your Stuff*, in 2024, ~~the finance~~ ^{1.8% of} net sales, or \$0.018 for every \$1 of net sales were put into finance costs. The reason for the increasing trend of finance cost % is due to the increased insurance paid. As more inventory is lost or damaged, Sam has had to pay higher insurance, resulting in a higher interest rate to be paid. To ensure that Sam keeps his liquid ratio at an acceptable amount, Sam has had to ~~put more of the~~ ^{increase the} finance cost %, increasing the amount of every \$1 of sales for finance cost percentage.

This has affected the equity ratio of 0.49:1 in 2023 to a decrease of 0.39:1. ~~The equity ratio~~ ^{The equity} for every \$1 in Assets, the owner, Sam has financed \$0.39. Although his sales and assets have increased, due to his purchase of a security camera and increase in bank due to sales, ~~the constant expenses due to~~ ^{the increase in} ~~insurance~~ ^{increase} in expense has decreased his bank, decreasing his current assets and causing a lower equity ratio.

QUESTION TWO

The following information was extracted from *Strut Your Stuff's* financial statements relating to the financial years ended 31 March, and the relevant industry averages for 2024.

Analysis measure	2023	2024	Industry average 2024
Mark-up %	95.0%	90.0%	100.0%
Gross profit %	48.7%	47.4%	50.0%
Inventory turnover	3.4 times	3.8 times	3.0 times

Sam deliberately marks up the inventory by 110%, and *Strut Your Stuff* hardly ever has discount sales due to the popularity of the inventory.

- (a) Why are the reported mark-up results for 2023 and 2024 lower than the mark-up Sam applies? In your answer explain:
- what 'Sam deliberately marks up the inventory by 110%' means; use a pair of shoes with a cost price of \$100 as an example
 - how the increase in damaged and missing inventory has contributed to the markup % in 2024 being 90% compared to the intended 110%.

Sam marks up inventory by 110%. This means that for a pair of shoes ^{with} ~~at~~ a cost price of \$100, \$110% ~~of~~ of cost price is added back on to make the selling price of \$111 for the shoes. Due to the losses of inventory, the amount of times Sam has to restock his items each year has increased from 3.4 times in 2023 to 3.8 times in 2024. His increased stock purchases despite his good terms with suppliers have increased his cost of goods sold as he has increased stock purchase. This increase of cost of goods sold from \$112870 in 2023 to \$121820 in 2024 has created a lower mark up percentage. ~~the~~ The lost/damaged inventory has had a negative impact on the mark up percentage.

Sam is pleased to see *Strut Your Stuff's* inventory turnover is higher than the industry average.

- (b) Explain how the increase in damaged and missing inventory has led to a false sense of security (thinking things are better than they are) for Sam when looking at inventory turnover.

The increased loss of inventory ~~a~~ has meant that Sam has had to keep purchasing

more inventory to ^{keep} ~~ensure~~ up with the foot traffic. due to his increased purchases, ^{he has} ~~despite~~ created a higher inventory turnover and will have a false sense of security. Even though his inventory turnover is high, there is still many of his stock being stolen. ~~so~~ ~~with~~ As the security system is put up, it will give a better, more reliable inventory turnover for Sam.

- (c) Discuss one potential positive and one potential negative consequence for Strut Your Stuff applying the mark-up percentage of 110%, which is above the industry average in 2024. Include the impact on sales and profit in your answer.

Strut your Stuff can apply a bigger markup ~~percentage~~ as it is able to purchase from suppliers at a low, constant rate. This means that the high markup % ^{still} ~~still~~ results in ^{selling} price being on par with other companies while the store earns a higher revenue. This higher Markup % of 110% positively impacts their sales and allows the store to improve by expanding to more teenagers with advertisements in other parts, ~~where~~ ^{as} the reliance on the busy mall for advertising is not a reliable form of advertising.

A negative ^{to increasing} ~~to~~ the markup %, higher than industry average means that other stores may be able to sell the same inventory cheaper. As trends easily fade out, if ^{Sam} ~~same~~ still sells outdated products at the same price, as he rarely does discounts, he will lose out on sales. The trends that teenagers wear are volatile and he should be worried about ^{keeping} ~~not~~ a high markup % ^{Accounting 91177, 2024} despite trends fading or he will get a lower sale. 00695

QUESTION THREE

The following information was extracted from *Strut Your Stuff's* financial statements relating to the financial years ended 31 March, and the relevant industry averages for 2024.

Analysis measure	2023	2024	Industry average 2024
Current ratio	3.01:1	3.97:1	2.58:1
Liquid ratio	0.01:1	<u>0.67:1</u>	0.48:1

(a) Discuss *Strut Your Stuff's* liquid ratio results. In your answer explain:

- what the result of 0.67:1 for 2024 means
- the reason for the trend between 2023 and 2024
- one potential negative consequence of your reason for this trend.

in 2024, the liquid ratio of 0.67:1 shows that for every \$1 of liquid liabilities, there are \$.67 in liquid assets ^{which last 4 to 6 weeks} to match. This is a good amount compared to 2023, where the liquid ratio was 0.01:1. As they show banks that they are able to comfortably meet interests and loans. The reason for this trend is due to the current assets increasing from the ^{Sales of} ~~purchase of~~ ^{from customers} ~~security cameras~~. The amount of inventory has also increased due to the constant purchase to make up for the damaged/lost goods.

The ~~current ratio~~ ^{purchases increase} increased ~~of current assets from the~~ ^{sales} inventory which increase current asset which ^{continues on p08} ~~only~~ ^{don't give the same a good ratio to see if he}

(b) Explain one reason for the difference in *Strut Your Stuff's* current and liquid ratio results in 2024.

The current ratio stays relatively the same ~~as~~ ~~the ratio~~ while the liquid asset ~~the~~ increases dramatically due to the increased inventory.

Sam's accountant has indicated that *Strut Your Stuff's* financial situation should improve in the year ended 31 March 2025.

(c) Justify, with two reasons, how and why *Strut Your Stuff's* financial situation should improve next year. In your answer:

- explain one way **profitability** should improve
- explain one way **liquidity or financial stability** should improve
- use the resource material
- include dollar figures and/or analysis measure results where relevant.

Sams ~~cost~~ distribution cost has increased ~~due~~
to the purchase of from 65000 in 2023 to
70000 in 2024 due to the purchase of security
cameras. As ^{the cameras} ^{inventory} ~~the~~ ~~turnover~~ will decrease
due to ^{the} ~~cost~~ ^{cost}, ~~the~~ ^{the} ~~good~~ ^{good} ~~will~~ ^{will} ~~also~~ ^{also} ~~decrease~~ ^{decrease} due to ~~the~~
Sam having to repurchase stolen goods later.
As ~~the~~ Sams sales have increased from 220697 in
2023 to 231458 in 2024, it will continue to
decrease as his administrative expense decreases
from the insurance. ~~and the~~ His financial
stability will improve due to his current
and liquid ratio becoming more steady.
his liquid ratio will decrease due to the
less stock he has and it will give him a
clearer indication of whether he
~~will~~ is able to safely meet bank deadline
or interest.

~~that~~ the store caters to
The teen ~~will~~ be too scared to steal and
therefore mean that the inventory will suffer
less ~~loss~~ ^{loss} and not require a
higher amount of inventory turnover.

Extra space if required.

Write the question number(s) if applicable.

QUESTION
NUMBER

3a

is actually able to pay back his interest.
the ~~tax~~ ^{cost} can also be put back in his
stock where he doesn't sell if he is unable to
get rid of the un-trendy clothes which
can keep increasing and will end up
being harmful on his company as he will
take out a loan that he cannot
keep up with. ~~the~~ ^{with high interest}

91177

Subject: Accounting

Standard: 91177

Total score: 11

Q	Grade score	Marker commentary
One	A3	<p>The candidate identified expense percentage, insurance as the relevant expense, and described the increase in total expense % and the worsening of the profit.</p> <p>Finance cost percentage was defined but not related to the loan interest.</p>
Two	M5	<p>The candidate described the meaning of the 110% mark up, the increase in the cost of goods sold due to the losses of inventory, and correctly identified a negative consequence of the higher mark-up.</p>
Three	A3	<p>the candidate provided an incomplete description of the significance of the liquidity ratio values. However, relevant liquid assets were not identified.</p> <p>Benefits of the security system were described in relation to the cost of goods sold and administrative expenses.</p>