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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.

Excellence

TOTAL 21

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 $3 562 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.

The total expense percentage for 2024 of 48.9% means that for every $100 Sam earns in gross profit $48.90 of it goes towards all expenses. A possible reason for Sams increase in total expense percentage could be because of Sams increase distribution costs from $65000 to $74000. This is due to Sam losing stock either from it being damaged or going missing which has led to higher insurance costs for goods that Sam has in the shop. The increasing trend for expense percentage has caused the profit for the year to display a negative trend (5.6% - -1.5%). With a small percentage change in sales the increase in expense percentage trumps what is being sold (revenue generated) and is thus leading to less profit.

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

(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.

For every $100 of gross profit Sam pays $1.80 in Finance costs

The reason for the increasing trend of Sams finance cost percentage from 0.9% to 1.8% could be linked to Sam ~~taking out more~~ borrowing more money from the bank. Sam has increased liabilities shown by the $17000 increase in the loan he has from 2023: $30000 - 2024 $47000. This increase of $17000 has caused the interest ~~as the~~ needing to be paid on the loan to increase as the bank is charging him more based on a percentage of the now higher loan. This has contributed to the decrease in the equity ratio from ~~0.49~~ 0.49:1 to 0.39:1 showing a 0.10 decrease. As Sam has financed more of Strut Your Stuff using the bank the amount of the business he owns is now less and the bank owns more. It is shown that for every $100 of assets Strut Your Stuff has, Sam owns $39. A possible cause of this could be Sam financing new security systems for his business by borrowing ~~for~~ from the bank.

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%.

A mark-up of ~~$100~~ 110% means that when Sam sells a pair of shoes for example ~~for~~ that he bought at a cost price of $100 he goes on to sell them for $210. The increase in damages and missing inventory has caused Sams mark-up percentage to be 90% instead of ~~$100~~ 110%. because due to the damaged inventory Sam would have to sell the ~~product~~ good at a reduced price because of the damage despite paying the same amount as an undamaged good. The costs have remained the same with the supplier but some goods are being sold for less because of damage which represents the lower 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.

Damaged and missing inventory has led to a false sense of security for Sam when looking at inventory turnover because Sam is not earning any revenue or lower revenue from the damaged and missing goods yet they still must be replaced because of continued high demand at Strut Your Stuff. Despite the inventory going missing or being damaged it needs to be replaced to keep stocks full and this has caused inventory turnover to increase falsely.

(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.

A potential positive to Sam ~~charging~~ marking his goods up by ~~\$~~ 10% more than the industry standard is that he earns more revenue with each sale Strut Your Stuff makes. With prices that have remained constant with the supplier and a high mark-up percentage Sam has been able to generate \$231458 in sales. This has been able to positively impact on gross profit. However a potential negative could be because of the high mark-up and thus cost of Strut Your Stuffs goods people are more inclined to steal from Sam because of the value and high price. This could be a reason for Sam losing inventory. Because of this stealing and ~~lose~~ loss of inventory other expenses have gone up such as distribution costs (\$9000 increase) to compensate for the missing inventory. For this reason profit for the year has become negative with a steep fall of \$15789 from \$12227 to ~~\$~~ (3562).

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	0.67:1	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.

The liquid ratio of 0.67:1 means that for every $100 of debt Strut Your Stuff has they ~~have~~ can pay $67 of it off ~~with~~ if they were to liquidise everything. A possible reason for the 0.66 increase in the liquid ratio from 0.01:1 to 0.67:1 could be due to Sam having more assets invested into the business however a possible negative to having more assets is that ~~the~~ in the case where Sam has to close his business he will lose all the assets in order to pay all his debts and money owed by Strut Your Stuff.

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

There is a significant difference in Strut Your Stuffs current and liquid ratio. A possible reason for this could be low current liabilities but high current assets that can pay these debts off quick, compared to the liquid ratio showing high non-current liabilities and Strut Your Stuff not having enough total assets to liquidise a pay off the debt it owes.

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.

Profitability should improve in the next year due to Sam installing a new security system at his shop. By doing so he is now minimising losing inventory by either it becoming damaged or ~~to~~ it going missing. This would cause his expenses (insurance payments) to decrease as he is not having to make so many claims. With lowered expenses from $113209 and not having to sell his inventory at a lower price because of damage he will earn more in revenue and thus have a better profit from ($3526) for the year for Strut Your Stuff. He will also have his mark up percentage at 116% instead of 90%. ~~Liquidity and~~ Financial stability for Strut Your Stuff should improve as Sam will have more in profit to then be able to reinvest or pay the debts ($47000 loan) off for Strut Your Stuff. This will mean that Sam will own a greater amount of his business and it will have the necessary assets to pay for Strut Your Stuffs debts in the case of a closing. Sam will then have a higher liquidity ratio getting closer to 1:1 from 0.67:1. By doing so Strut Your Stuff will become more stable and successful as a business. At the same time Sam will have a more prudent inventory turnover because the inventory being replaced is being sold and contributing to generating revenue.

Extra space if required.
Write the question number(s) if applicable.

QUESTION NUMBER

91177

Subject: Accounting

Standard: 91177

Total score: 21

Q	Grade score	Marker commentary
One	E7	The candidate justified the increase in the insurance cost and the impact on the expense percentage. They used the resource effectively and included the increase in the loan, its impact on the finance expense, and the flow on effect of decreasing equity.
Two	E7	The candidate demonstrated a comprehensive understanding of the application of a mark-up percentage, and the accounting impact of the stolen / damaged inventory on the actual mark-up percentage and the sales / revenue for the business. To achieve an E8, the candidate needed to relate the consequences of applying a higher mark-up to sales and profit.
Three	E7	The impact of the security system was discussed in relation to changes to expenses, revenue, and profit. The increase in profit was related to further improvements in *Strut your Stuff*'s financial position, including paying off debts to increase equity. To achieve an E8, the candidate needed to identify the effect the loan had on the liquid ratio and the negative consequences that may arise from this.