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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.

Merit

TOTAL 17

[redacted] [redacted]

Answer
Accounting 91177

[redacted]

QUESTION ONE

(a)

The total expense percentage of 48.9% in 2024 means that in 2024, 48.9% of sales were expenses. In every dollar of sales, $0.489 were expenses.

One possible reason for the trend in total expense percentage from 2023 to 2024 is because of the increased distribution and administration costs, which might've been caused by the need to pay for more insurance due to the increase in missing/damaged stock.

The total expense percentage went up by about 5.7% from 2023 to 2024, and the profit for the year percentage decreased by 7.1% from 2023 to 2024. While sales increased by $11361, cost of goods sold also increased by $8950, and as such gross profit only increased by $2411. However, the total expenses increased by $18200 (from $95000 in 2023 to $113200 in 2024). As such the profit for the year percentage decreased because of the much larger total expenses than gross profit.

(b)

The finance cost percentage increasing from 0.9% in 2023 to 1.8% in 2024 is due to the loan taken out by Sam in 2024, worth $17000. The interest on the loan would increase the finance cost percentage.

The loan taken by Sam has increased the non-current assets of Strut Your Stuff by $17000, while also decreasing his equity in the business by $3680. This loan was likely taken to finance the new security system Sam installed; property, plant, and equipment has increased by $6800.

QUESTION TWO

(a)

"Sam deliberately marks up the inventory by 110%" means that Sam will increase the price of all of his products by 110% more than he purchased them for. For example, if Sam bought a pair of shoes for $100, he would increase the price by 100% + 10%, so $100 (original price) + $100 (100%) + $10 (10%), so he would end up selling the pair of shoes for $210.

As damaged and missing inventory has increased over the years, Sam has had to write off inventory as not sold, or written off for $0. If Sam sells damaged inventory for less, especially if it is less than he bought it for, that would still contribute to a negative mark-up percentage. So, Sam's full inventory would have a mark-up percentage of 110%, but after some inventory is written down to $0, the overall mark-up percentage drops to 95% in 2023 and drops even more as more inventory is likely stolen/damaged as 90% mark-up percentage in 2024.

(b)

The industry average for inventory turnover is 3 times a year. This means that on average, the business fully replaces/cycles its inventory 3 times in a year. Damaged and missing inventory has lead Sam into a false sense of security as he believes his inventory turnover of 3.8 times is above industry average. The increased inventory turnover is likely due to the missing and damaged inventory, as when it is stolen/disposed of, it is replaced with new stock, as if it were sold as usual. However, little no profit is made on damaged or missing inventory, so even though Strut Your Stuff's inventory turnover is higher than industry average, the sales may not have increased by as much.

(c)

One potential positive consequence of Strut Your Stuff applying a mark-up percentage of 110% (10% above industry average) in 2024 is that the total amount of sales would increase, even if he sells the same amount of and same exact stock as another store, he would be making a larger margin on each item, and would therefore receive more gross profit, and in turn, more profit for the year. One potential negative consequence of Strut Your Stuff applying a mark-up percentage of 110% in 2024 is that the increased price would drive away customers, decreasing overall sales numbers. The decreased number of sales would lead to less revenue generated from sales, so less gross profit, and less profit for the year.

QUESTION THREE

(a)

Strut Your Stuff's liquid ratio of 0.67:1 in 2024 means that for every dollar of assets, $0.67 of assets are available to cover liquid liabilities.

One reason for the trend of the liquid ratio between 2023 and 2024 is because of the increase in the bank asset and decrease in unsecured overdraft. The bank asset counts a liquid asset, and was at 0 in 2023. There was also an unsecured overdraft worth $3000 in 2023. However, in 2024, the bank asset was worth $6300, and the unsecured bank overdraft was paid off. This decrease in current liabilities and increase in current assets likely increased the trend of $0.01 of assets to cover every $1 of liquid liabilities in 2023 to $0.67 of assets to cover every $1 of liquid liabilities in 2023.

One potential negative consequence of my reason for this trend is that the loan and the property, plant, and equipment increase as well as the decrease in equity were not taken into account. The business now has less equity to pay off liquid liabilities, and a lot of non-current assets which cannot be used to cover liquid assets.

(b)

The difference in Strut Your Stuff's liquid and current ratio could be attributed to a prepayment of some sorts, as inventory has not changed by much and neither has any secured bank overdraft been made.

(c)

Strut Your Stuff's financial situation should improve over the next year because:
Profitability should improve due to Sam installing a new security system which can detect and reduce missing/damaged of property, reducing the amount of gross profit lost to damage/theft, therefore increase total profit for the year.

Liquidity and financial stability should improve due to the increase in profit, along with a decrease in insurance that is required to be paid for missing/damaged inventory, and the overall increase in mark-up percentage without increasing the price. More bank asset and less expenses to cover means that the business is more financially stable and can cover liquid liabilities better.

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.

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.

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 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.

(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.

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.

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

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.

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

QUESTION NUMBER

91177

Subject: Accounting

Standard: 91177

Total score: 17

Q	Grade score	Marker commentary
One	M6	The candidate identified: • insurance as an expense that contributed to the trend in total expense percentage • the loan, and the increase in finance cost percentage.
Two	M6	The candidate defined mark-up and correctly calculated it for the given example. The candidate explained why the inventory turnover measure needs to be treated with caution. One positive consequence of higher mark-up was provided, and this was linked to profit and sales.
Three	M5	The candidate defined liquid ratio and identified the change in the bank as the reason for the improvement in the liquid ratio. The candidate explained how profitability will improve as a result of the purchase of the security system and the increase in the profits resulting from the retention of the inventory.