

90225



902250



NEW ZEALAND QUALIFICATIONS AUTHORITY
 MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 2 Accounting, 2007

90225 Analyse and interpret information and make recommendation(s) for a sole proprietor

Credits: Four

9.30 am Tuesday 27 November 2007

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

Pull out the Resource Booklet 90225R from the centre of this booklet to answer all questions.

You should answer ALL the questions in this booklet.

If you need more space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

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.

<i>For Assessor's use only</i>		Achievement Criteria	
Achievement		Achievement with Merit	Achievement with Excellence
Analyse financial information.	<input type="checkbox"/>	Analyse a range of financial information.	Analyse a wide range of financial information. <input type="checkbox"/>
Interpret information and make recommendation(s).	<input type="checkbox"/>	Interpret a range of information and make recommendation(s).	Interpret a wide range of information and make justified recommendation(s). <input type="checkbox"/>
Overall Level of Performance (all criteria within a column are met)			<input type="checkbox"/>

You are advised to spend 45 minutes answering the questions in this booklet.

QUESTION ONE: PROFITABILITY COMPARISON AGAINST INDUSTRY AVERAGES

Bella's Fashion Boutique sells fashion clothing and accessories. Bella has always been happy with the financial results of her business. Last month, her accountant told her that she should compare her results with the industry averages to get a better idea of how her business is performing. Her accountant gave her the following information.

Performance Measure	<i>Bella's Fashion Boutique</i>	Fashion Industry Averages
Sales per year	\$200 000	\$240 000
Mark-up percentage	100%	81.2%
Gross Profit percentage	50%	45%
Distribution Cost percentage	8%	10%
Administration Expense percentage	18%	4%
Finance Cost percentage	4%	6%
Net Profit percentage	20%	25%
Inventory Turnover	4 times	5.2 times

Use the information in the table above to answer the questions that follow.

- (a) **Explain** the meaning of *Bella's Fashion Boutique's* Mark-up percentage of 100%.

- (b) **Explain** ONE reason that could have resulted in *Bella's Fashion Boutique* having a lower level of sales than the industry average.

Reason: _____

Explanation: _____

- (c) **Explain why *Bella's Fashion Boutique's* Net Profit percentage is below the industry average despite the Gross Profit percentage being higher.**

- (d) **Recommend** how Bella can improve the **Net Profit percentage** to be closer to the industry average. **Justify** your recommendation.

Recommendation: _____

Justification for your recommendation: _____

QUESTION TWO

Refer to the information in the **Resource Booklet 90225R** to answer the following questions.

Laura is the sole owner of *Music Magic*, which has sold the latest CD's, DVD's and videos in Timaru for the past six years. This year Laura opened up a second store, as a branch of *Music Magic*, in Ashburton. Laura employed locals to run the store in Ashburton, but she ran both of the business operations from Timaru.

Part A: Calculating Analysis Measures

Complete the table below by calculating missing figures.
Round all your calculations to 2 decimal places.

Analysis measure	2006	2007
Distribution Cost percentage	18.75%	37.58%
Administration Expense percentage	10.42%	_____%
Finance Cost percentage	4.17%	6.06%
Net Profit percentage	16.67%	_____%
Mark-up percentage	100%	106.25%
Percentage Change in Sales	15%	71.88%
Percentage Change in Net Profit	25%	-87.5%
Age of Accounts Receivable	65 days	_____days
Inventory Turnover	4.13 times	_____times
Return on Average Equity	8.29%	_____%
Current Ratio	4.40:1	_____:1
Liquid Ratio	1.47:1	0.58:1
Equity Ratio	0.81:1	0.79:1

Working Space.

Part B: Profitability

Use the information in **Resource One** of **Resource Booklet 90225R** and the information in Question Two Part A to answer the following questions.

- (a) **Explain** the meaning of the **Distribution Cost percentage** of **37.58%** for 2007.

- (b) Identify and **explain ONE reason** for the **increase** in the **Distribution Cost percentage** from 18.75% in 2006 to 37.58% in 2007.

Reason identified: _____

Your reason explained: _____

- (c) The **Finance Costs percentage** has increased from 4.17% in 2006 to 6.06% in 2007. **Explain ONE reason** for this **increase**.

- (d) The **Net Profit** has fallen from \$16 000 in 2006 to \$2 000 in 2007. Despite this poor result Laura is confident that her Net Profit will improve next year. **Explain ONE reason** why Laura is confident.

Part C: Liquidity and Financial Stability

Use the information in **Resource One** of **Resource Booklet 90225R** and the information in Question Two Part A to answer the following questions.

(a) **Explain fully** the meaning of the **Current Ratio** in 2006 of **4.40:1**.

(b) **Explain ONE** reason for the decrease in the Liquid Ratio.

Reason: _____

Explanation: _____

(c) Recommend ONE way Laura can **improve her Liquid Ratio without further decreasing her Equity Ratio**. Justify your recommendation.

Recommendation: _____

Justification for your recommendation: _____

Part D: Decision Summary

Use the information in **Resource One** of **Resource Booklet 90225R** and the information in Question Two to answer the following questions.

(a) Was Laura’s decision to open a second store a good decision? YES / NO
(Circle your answer)

(b) **Explain fully** TWO reasons for your answer.

Reason 1: _____

Reason 2: _____

**Extra paper for continuation of answers if required.
Clearly number the question.**

Question
number
