

90028



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

*For Supervisor's use only*

## Level 1 Accounting, 2007

### 90028 Analyse and interpret information for a sole proprietor(s)

Credits: Four  
2.00 pm 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 90028R to answer Questions One and Two.

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>		<b>Achievement Criteria</b>	
<b>Achievement</b>		<b>Achievement with Merit</b>	<b>Achievement with Excellence</b>
Analyse and interpret information for a sole proprietor(s).	<input type="checkbox"/>	Analyse and interpret a range of information for a sole proprietor(s).	<input type="checkbox"/>
		Analyse and fully interpret a wide range of information for a sole proprietor(s).	<input type="checkbox"/>
<b>Overall Level of Performance</b>		<input type="checkbox"/>	

You are advised to spend 40 minutes answering the questions in this booklet.

### QUESTION ONE: PROFITABILITY ANALYSIS

Refer to the Resource Booklet 90028R to answer this question.

*Barry's Music Store* is a sole proprietor retail business owned by Barry Simons. The following table summarises financial data for *Barry's Music Store* for the years ended 31 March 2006 and 31 March 2007.

	Year ended 31 March 2006 \$	Year ended 31 March 2007 \$
Sales	300 000	400 000
Gross Profit	150 000	240 000
Distribution Expenses	30 000	80 000
Administration Expenses	15 000	20 000
Finance Costs	15 000	4 000
Net Profit	90 000	136 000

- (a) Refer to the table above and the formulae sheet in the **Resource Booklet 90028R** to complete the following Analysis Measures Chart. Enter the missing percentages; some of the percentages have already been calculated for you. **Percentages are to be rounded to ONE decimal place.**

**Analysis Measures Chart for *Barry's Music Store***

Analysis Measure	2006	2007
Gross Profit %	50%	_____ %
Distribution Expense %	10%	20%
Administration Expense %	5%	_____ %
Finance Costs %	5%	1%
Net Profit %	_____ %	34%
Mark-up %	_____ %	150%
% Change in Sales		_____ %

(b) Explain fully what the percentage change in sales tells Barry.

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(c) The **Distribution Expense** percentage has increased from 10% in 2006 to 20% in 2007. Explain fully ONE reason for the increase in the distribution expense percentage.

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(d) The **Net Profit** percentage in 2007 is 34%. Explain what this tells Barry about his business.

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(e) Barry is very pleased with the trend in the **Net Profit** percentage. Explain fully ONE way that Barry can continue to **increase** the **Net Profit** percentage.

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## QUESTION TWO: LIQUIDITY AND FINANCIAL STABILITY ANALYSIS

Refer to the Resource Booklet 90028R to answer this question.

The ratios below relate to *Barry's Music Store* for the year ended 31 March 2006. Consider the following results and answer the questions on the following ratios:

Current Ratio	1.4:1
Liquid Ratio	0.7:1
Equity Ratio	0.3:1

- (a) Explain what a current ratio of 1.4:1 tells Barry about his business:

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- (b) (i) Identify ONE of the three ratios above that is **unsatisfactory**.

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- (ii) Explain what Barry could do to improve this ratio in the future.

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- (c) Refer to Resource Two and the formulae sheet in the Resource Booklet 90028R to help you complete the following Analysis Measures chart that relates to *Barry's Music Store* for the year ended 31 March 2007. Ratios are to be rounded to ONE decimal place.

Analysis Measure	2006	Working	2007
Current Ratio	1.4:1		:1
Liquid Ratio	0.7:1		:1
Equity Ratio	0.3:1		:1

- (d) (i) Identify ONE of the trends in the chart in part (c), page 4, that is **unsatisfactory**.

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- (ii) Explain fully ONE reason for the unsatisfactory trend identified in (d)(i) above.

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**TURN TO PAGE 6 FOR QUESTION THREE**

### **QUESTION THREE: DECISION MAKING**

Barry is considering either buying another music business or expanding his current music store to include a games arcade where customers can pay to play video games and pool while listening to music. He has found another music store in Hamilton and is keen to make it similar to the one he currently runs in Auckland. Barry has \$50 000 of his own to invest and would need to borrow any additional funds. He has provided you with the following information relating to the two options.

#### **New Hamilton Music Store**

- Price: \$80 000. Price includes a modern shop in a good location.
- Growth prospects look good, with no competition in the area.
- Will require employing a manager to run the store as Barry will only be able to visit once a week.
- Barry already has knowledge of the industry and has reliable suppliers.
- Barry is concerned about the responsibility of having two businesses.

#### **Expanding to include a Games Arcade**

- Cost for extensions and facilities is \$60 000.
- Expected to earn an additional \$20 000 net profit per year.
- Barry doesn't know very much about running a games arcade.
- Customers using the recreational centre might also spend money on music.

- (a) Based on the information provided on the previous page, recommend which of the two options is better for Barry.

I **recommend** that Barry should:

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- (b) Give ONE **non-financial** reason for your recommendation.

Non-financial reason:

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- (c) State the option you did not recommend to Barry.

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- (d) Give ONE **non-financial** reason for not recommending this option to Barry.

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- (e) If Barry accepts your recommendation in (a) above, explain ONE possible **consequence** for **Barry** in adopting your recommendation.

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