



91177

Mana Tohu Mātauranga o Aotearoa New Zealand Qualifications Authority

# Level 2 Accounting 2023

# 91177 Interpret accounting information for entities that operate accounting subsystems

Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Interpret accounting information	Interpret accounting information	Interpret accounting information
for entities that operate accounting	in depth for entities that operate	comprehensively for entities that
subsystems.	accounting subsystems.	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 any cross-hatched area  $\binom{\text{orgenerative}}{\text{orgenerative}}$ . 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.

Refer to ALL the resources in **Resource Booklet 91177R** to answer the questions in this booklet. You can refer to *Mika's Music World* as MMW in your answers.

# **QUESTION ONE**

The following analysis measures were extracted from the financial statements for *Mika's Music World* for the financial years ended 31 March.

Analysis measures	2022	2023
Mark-up %	57.8%	62.2%
Gross profit %	36.6%	38.3%
Percentage change in sales	+10.2%	+18.8%
Inventory turnover	6 times	7 times

Mika is keen to understand whether the introduction of selling the second-hand inventory has been a good decision for profitability at *Mika's Music World*.

- (a) Should Mika be pleased with her decision to sell second-hand inventory? Justify your answer in terms of sales and profit. In your answer, explain:
  - the percentage change in sales of +18.8% in 2023
  - how the selling of second-hand inventory influenced the trend in sales, and its impact on profit.

- (b) How has the introduction of purchasing and selling second-hand inventory impacted mark-up percentage and inventory turnover for *Mika's Music World* between 2022 and 2023? In your answer:
  - explain the meaning of the 2023 inventory turnover of seven times
  - justify how the second-hand inventory impacted on both the trend in mark-up % and the trend in inventory turnover.

Accounting 91177, 2023

### **QUESTION TWO**

The following information was extracted from the financial statements for *Mika's Music World* for the financial years ended 31 March.

Analysis measures	2022	2023
Distribution cost %	25.2%	26.5%
Inventory turnover	6 times	7 times
Current ratio	4.20:1	4.69:1
Liquid ratio	0.44:1	0.51:1

Mika is excited her inventory turnover has increased from six times per year in 2022 to seven times in 2023. However, she is concerned that it is often difficult to pay the accounts payable for *Mika's Music World* on time each month.

- (a) How has the trend in distribution cost percentage impacted the inventory turnover of *Mika's Music World*? In your answer:
  - explain one valid reason for the trend in distribution cost percentage from 2022 to 2023
  - justify the link between your reason for the trend in distribution cost percentage and the trend in inventory turnover.

- (b) *Mika's Music World* is struggling to pay its accounts payable on time. Justify why this is the case. In your answer, explain:
  - the meaning of the 2023 current ratio of 4.69:1
  - one reason why its current ratio is 4.69:1 whereas the liquid ratio is 0.51:1 in 2023
  - one reason why *Mika's Music World* is not able to pay its monthly accounts on time, and one consequence if this continues.

## **QUESTION THREE**

The following analysis measures were extracted from the financial statements for *Mika's Music World* for the financial years ended 31 March.

Analysis measures	2022	2023
Equity ratio	0.67:1	0.71:1
Return on average equity	44.6%	52.4%

- (a) Justify why Mika should be happy with her capital investment in *Mika's Music World*. In your answer, explain:
  - the meaning of the 2023 equity ratio of 0.71:1
  - one reason for the trend in return on average equity percentage between 2022 and 2023.

Mika is excited about the prospect of opening a new store in Auckland. She expects that this will cost approximately \$40 000 to set up. She has \$15000 personal savings that is earning 4.2% p.a. Mika has two options to fund the expansion into Auckland:

Option 1: use her \$15000 savings and borrow \$25000 at 11.5% p.a. Option 2: borrow the full \$40000 at 11.5% p.a. as a bank loan.

- (b) How should Mika fund the expansion into Auckland? In your answer:
  - recommend which of the two options above Mika should choose
  - use at least one analysis measure and one other reason to justify your recommendation
  - explain why your recommendation is better than the other option.

7

		NOT WRITE IN TH
		OT WRITE IN THE
	8	HIS AREA DO NO
		A BONOT WRIT
		NOT WRITE IN TH OT WRITE IN THE TEINTHIS REA HISPAREA DO N A BONOT WRI DO NOT WRITE IN OT WRITE IN THI
	Extra space if required.	ITE IN THIS AREA
		HIS AREA DO'NO
QUESTION	Write the question number(s) if applicable.	DO NOT WRITE I
NUMBER		DO NOT WRITE I
		VRITE IN THIS AR
		N THIS AREA DO
		NOT WRITE IN TH WITE IN THOSE NOT WRITE IN THOSE NOT WRITE IN TH REA DOINT WRITE NOT WRITE IN TH NOT WRITE IN TH NOT WRITE IN TH NOT REA TO NOT WRITE IN TH REA DOINT WRITE IN DO NOT WRITE IN
		NOT WRITE IN THE
		NRITE IN THIS AF
		NTHIS AREA DO
		NOT WRITE
		WRITE IN THIS A
		E IN THIS AREA
		WRITE IN THIS AF E IN THIS AREA IS AREA DO NO EA DO NOT WAY
		IN THIS AREA D
		THIS P
		IS AREA DONO
		A DO'NOT WRI
		E IN THIS AS IS AREA DONO A DONOT WRI OT WRITE IN THI WRITE IN THIS R
		TE IN THIS AREA
		THIS AREA DU
		REA DO NOT W
		TE IN THIS AREA S AREA DONOT TEIN THIS AREA
		TE IN THIS AREA
		THISAREA
		REA DO NOT W
		EIN THIS P
		DO NOT WRITE IN TH
		NOT WRITE IN T
		HIS AREA DO NO
		TE IN THIS TE IN THIS AREA HIS AREA, DD N WRITE IN THIS NITHIS AREA T. WRITE IN THIS TE IN THIS
		IN THIS AREA . DI
		TE IN THIS AREA
		HIS AREA DO N
		SAREA DONO
		ENTHERION HEARER DONO SAREA DONO NOTWRITEINTI DONIGTWRITEIN NOTWRITEIN TH
		NOT WRITE IN T
		WRITE IN THIS P
		TE IN THIS AREA
		WRITE IN THIS
		N THIS AREA DO
		WRITE IN THISP
		HIG AREA DO NO
		SAREA DO NOT
		DO NOT WRITE IN TH
		NOT WRITE IN T
		WRITE IN THIS
		TE IN THIS AREA
		WRITE IN THIS
		IN THIS AREA D
		THIS IN THIS
		HIS AREA DON
		IS AREA DO NO
		NOT WRITE IN TH
		WOU WRITEIN TH
		RITE IN THIS ARE
		N THIS AREA DO
		AREA DONOT
		HIS AREA "DO NO
		RITE IN THIS ARE
		N THIS AREA DO
		REA DO NOT W
		WRITE IN THIS
		WRITE IN THE A SECTION OF THE INTERPORT OF THE ASSA OF
		NOT WRITE IN T

ITE IN THIS AREA THIS AREA DO N T WRITE IN THIS IN THIS AREA D