



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.

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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.

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