

Assessment Schedule – 2023**Accounting: Interpret accounting information for entities that operate accounting subsystems (91177)****Evidence**

Question ONE	Sample Evidence
(a)	<p>Mika should be pleased with the decision to sell second-hand inventory because <i>Mika's Music World's</i> sales have increased by 18.8% from 2022 to 2023, from \$404 000 to \$480 000. This means for every \$1 of sales made in 2022, \$1.19 was earned in 2023.</p> <p>The introduction of the second-hand inventory helped lead to the increase in sales because (one of):</p> <ul style="list-style-type: none"> • It allowed customers to trade in old instruments and pay less for new purchases. This was a bigger incentive to shop with <i>Mika's Music World</i> as opposed to its competition, which increased the sales of new inventory. This helped increase sales by 18.8% from last year. • It provided a new line of more affordable inventory for customers who couldn't afford the new stock. This increased the quantity of customers in the store and increased the number of sales which is supported by the increase in inventory turnover. The introduction of second-hand sales helped increase <i>Mika's Music World's</i> sales by 18.8% from last year. <p>The increase in sales, and a lot of inventory now having a cheaper cost price / more customers, has helped increase the profit from \$28 000 in 2022 to \$39 300 in 2023.</p>
(b)	<p><i>Mika's Music World's</i> inventory turnover in 2023 means that on average, <i>Mika's Music World</i> sold its average inventory seven times throughout the year / in under every two months.</p> <p><i>Mika's Music World's</i> mark-up % has increased from 57.8% in 2022 to 62.2% in 2023, indicating a greater margin on each item sold. The introduction of the second-hand inventory has led to this increase because <i>Mika's Music World</i> has been able to put a bigger mark-up on the second-hand items because they were purchased more cheaply in the first place, decreasing the cost of goods sold for those items. This allowed Mika to increase the selling price by a greater percentage than last year, and still keep the price affordable as they are cheaper items and therefore customers will still buy them. They are still cheaper than the new inventory and therefore will have a greater quantity sold.</p> <p>As a result of a more affordable range of inventory in the store due to the second-hand inventory, the inventory turnover increased. Also being able to trade in musical instruments has attracted new customers and has increased sales as customers who previously couldn't afford to buy a new instrument now can. Despite the mark-up % being higher and having more inventory on hand (increasing on average from \$40 600 to \$45 400), the actual selling price that the customers pay is less on the second-hand goods / the new inventory is cheaper due to the trade-in, therefore attracting more customers, increasing sales, and increasing inventory turnover from six times per year to seven times per year.</p>

N1	N2	A3	A4	M5	M6	E7	E8
<p>With minimal / no reference to context, provides ONE partial description.</p>	<p>With minimal / no reference to context, provides TWO descriptions.</p>	<p>With some reference to context describes TWO of:</p> <ul style="list-style-type: none"> • meaning of % change in sales • how the second-hand inventory increased sales • meaning of inventory turnover • how the second-hand inventory increased in mark-up % • how the second-hand inventory increased inventory turnover. 	<p>With some reference to context, describes THREE of:</p> <ul style="list-style-type: none"> • meaning of % change in sales • how the second-hand inventory increased sales • meaning of inventory turnover • how the second-hand inventory increased in mark-up % • how the second-hand inventory increased inventory turnover. 	<p>With reference to context, explains TWO of:</p> <ul style="list-style-type: none"> • meaning of % change in sales • how the second-hand inventory increased sales • meaning of inventory turnover • how the second-hand inventory increased in mark-up % • how the second-hand inventory increased inventory turnover. 	<p>With reference to context, explains THREE of:</p> <ul style="list-style-type: none"> • meaning of % change in sales • how the second-hand inventory increased sales • meaning of inventory turnover • how the second-hand inventory increased in mark-up % • how the second-hand inventory increased inventory turnover. 	<p>Integrates the context of second-hand musical inventory to justify the impact on the percentage change in sales, the trend in mark-up %, and the trend in inventory turnover, and the impact on profit. Part of the justification may be weaker.</p>	<p>Integrates the context of second-hand musical inventory to justify the impact on the percentage change in sales, the trend in mark-up %, the trend in inventory turnover, and the impact on profit.</p>

N0 = No response; no relevant evidence.

Question TWO	Sample Evidence
(a)	<p><i>Mika's Music World's</i> distribution cost percentage has increased from 25.2% in 2022 to 26.5% in 2023. The reason for this increase is the \$25 000 increase in distribution costs from \$102 000 in 2022 to \$127 000 in 2023. One of the reasons for the increase in the distribution cost percentage, despite the large increase in sales, was (examples, must relate to the resource):</p> <ul style="list-style-type: none"> • The introduction of the photo promotion on social media. The monthly prize of \$250 totals \$3 000, which introduces this new distribution cost 'prizes' (allow other valid names or advertising) this year, which has contributed to the increase in the distribution costs, and the distribution cost percentage. • The introduction of the second-hand inventory and trade-ins meant that <i>Mika</i> had to employ more sales staff. This has resulted in an increase in staff wages and therefore distribution costs and distribution cost percentage. • An increase in advertising to promote the new second-hand inventory. This would have increased the advertising expense which would increase the distribution costs and distribution cost percentage. <p>This increase in advertising / introduction of the competition prize / more staff has led to an increase in customers / customers being served more and kept happy, which has increased sales – both new and second-hand – and therefore helped contribute to the increase in inventory turnover from six times per year to seven times.</p> <p>(Note: the cost of trade-ins would be purchases / cost of goods sold, however, allow for Achieved and Merit if explained as distribution cost).</p>
(b)	<p><i>Mika's Music World's</i> difficulty in paying its accounts payable is a concern for <i>Mika</i>. The current ratio in 2023 is 4.69:1. This means that <i>Mika's Music World</i> has \$4.69 current assets to repay every \$1 of current liabilities as they fall due. This means that <i>Mika's Music World</i> should be able to meet these short-term / current debts as they fall due, of which accounts payable is likely to be the main one.</p> <p>The reason that the current ratio is a healthy 4.69:1 and the liquid ratio is a concerning 0.51:1, is the large amount of inventory on hand, due to now stocking second-hand inventory, financed by either bank or accounts payable. The \$45 400 closing average inventory is the main component in the current assets, and this is why the current ratio is so high. However, this is removed in the liquid ratio, only leaving bank, and other small current assets to cover the accounts payable and other liquid liabilities.</p> <p>The liquid ratio being only 0.51:1 indicates that <i>Mika's Music World</i> cannot pay its immediate debts as they fall due, as it has only 51 cents of liquid assets to repay every \$1 liquid liabilities. This indicates that <i>Mika's Music World</i> cannot pay back its accounts, especially as bank is \$4 250 whereas accounts payable is \$7 400.</p> <p>One consequence of <i>Mika's Music World</i> not being able to pay its accounts payable on time is it puts the current relationship with suppliers at risk. If <i>Mika's Music World</i> can't pay suppliers back on time, they could start to charge <i>Mika's Music World</i> interest, meaning <i>Mika's Music World</i> would have even more to repay. Suppliers could also stop allowing <i>Mika's Music World</i> to purchase on credit, which would limit its inventory, and this would decrease sales in the future.</p>

N1	N2	A3	A4	M5	M6	E7	E8
<p>With minimal / no reference to context, provides ONE partial description.</p>	<p>With minimal / no reference to context, provides TWO descriptions.</p>	<p>With some reference to context describes TWO of:</p> <ul style="list-style-type: none"> • reason for trend in distribution cost % • reason for DC to help increase inventory turnover • meaning of current ratio • inventory being the reason for the ratio results • one consequence. 	<p>With some reference to context, describes THREE of:</p> <ul style="list-style-type: none"> • reason for trend in distribution cost % • reason for DC to help increase inventory turnover • meaning of current ratio • inventory being the reason for the ratio results • one consequence. 	<p>With reference to context, explains TWO of:</p> <ul style="list-style-type: none"> • reason for trend in distribution cost % • reason for specific DC to increase inventory turnover • inventory being the reason for the ratio results • liquid ratio to explain why can't pay accounts payable • one consequence. 	<p>With reference to context, explains THREE of (one may be weaker):</p> <ul style="list-style-type: none"> • reason for trend in distribution cost % • reason for specific DC to increase inventory turnover • inventory being the reason for the ratio results • liquid ratio to explain why can't pay accounts payable and second-hand inventory • one consequence. 	<p>With reference to context, justifies TWO of:</p> <ul style="list-style-type: none"> • using the context of second-hand inventory or the voucher prize, links a specific distribution cost and inventory turnover • the link between second-hand inventory and the ratio results • liquid ratio or \$ bank / \$ accounts payable to the inability to pay accounts payable and a resulting consequence. 	<p>With reference to context, justifies ALL of:</p> <ul style="list-style-type: none"> • using the context of second-hand inventory or the voucher prize, links a specific distribution cost and inventory turnover • the link between second-hand inventory and the ratio results • liquid ratio or \$ bank / \$ accounts payable to the inability to pay accounts payable and a resulting consequence.

N0 = No response; no relevant evidence.

Question THREE	Sample Evidence
(a)	<p>Mika should be happy with her capital investment in <i>Mika's Music World</i> and analysis measures support this.</p> <p><i>Mika's Music World's</i> equity ratio in 2023 is 0.71:1. This tells Mika that she has personally financed / invested 71 cents for every \$1 of assets currently in her business. This supports <i>Mika's Music World's</i> ability to borrow from the bank as Mika has funded more than twice that the liabilities.</p> <p>The return on average owner's equity has increased from 44.6% in 2022 to 52.4% in 2023, both being very high returns. The main reason for this increase in return on equity is the increase in profit from 2022 to 2023 from \$28 000 to \$39 300, a 40% increase. This is due to the increase in sales due to the introduction of the second-hand inventory / trade-in facility.</p>
(b)	<p><i>Either answer is acceptable. The answer should explain, with evidence, one reason using one appropriate analysis measure (e.g Equity ratio, Finance Cost %, Return on Equity) and one other reason (can be financial, non-financial, a second analysis measure).</i></p> <p>Mika should invest \$15 000 savings and borrow \$25 000</p> <p>Given that the current profitability is high and has increased, and the current return on equity ratio is so high at 52.4%, Mika should definitely invest her \$15 000 into <i>Mika's Music World</i>. The return on equity ratio of 52.4% means that the money invested by Mika is generating a 52.4% return on investment, or for every dollar invested, she is earning 52.4 cents back. Compared to the interest rate on term deposits at 4.2%, this is a much more profitable investment for Mika than her current savings return.</p> <p>In addition to this, if she invests \$15 000, <i>Mika's Music World</i> only needs to borrow \$25 000 instead of the full \$40 000 which will make the equity ratio 0.62:1 which is a much stronger position than 0.53:1 if they borrow it all. This will allow room to borrow again in the near future if <i>Mika's Music World</i> needs to. By borrowing less, it also means that \$1 725 less interest will be paid on the new loan (\$2 875 compared to \$4 600 per year), which will help provide a higher profit than if it borrows the full amount, and further increase Mika's return.</p> <p>Borrow \$40 000 from the bank</p> <p>If <i>Mika's Music World</i> borrows the entire \$40 000, then the equity ratio will still be above 50% at 0.53:1, indicating that Mika will still have funded more than half the assets and <i>Mika's Music World</i> will still be financially stable. Despite the increase in interest payments, <i>Mika's Music World</i> can afford an increase in interest payments of \$4 600 for the first year as it only paid \$1 700 in 2023, and the profit is high at \$39 300, an \$11 300 increase from 2022.</p> <p>Borrowing the full amount will mean that Mika can keep her \$15 000 savings and use it if she needs it for something personal (e.g. go on holidays), or she won't need to take as many drawings next year, or if the expansion costs more than she expects it to she can use her savings then. She will be able to invest the money to increase the equity as needed in the future, and in the meantime take advantage of the cheap business-borrowing from banks.</p>

N1	N2	A3	A4	M5	M6	E7	E8
With minimal / no reference to context, provides ONE partial description.	With minimal / no reference to context, provides ONE description.	With some reference to context describes TWO of: <ul style="list-style-type: none"> • meaning of equity ratio • reason for the trend in return on average equity • makes a recommendation. 	With some reference to context, describes TWO of, with one being a recommendation: <ul style="list-style-type: none"> • meaning of equity ratio • reason for the trend in return on average equity • makes a recommendation and provides one reason. One part may be weaker.	With reference to context, explains TWO of: <ul style="list-style-type: none"> • meaning of equity ratio • reason for the trend in return on average equity • makes a recommendation and explains one analysis measure. 	With reference to context, explains ALL of: <ul style="list-style-type: none"> • meaning of equity ratio • reason for the trend in return on average equity • makes a recommendation and explains one analysis measure. One part may be weaker.	Integrates the context to justify the funding of the Auckland store expansion by using the equity ratio and return on equity percentage to support the recommendation. At least ONE reason, with AN ADDITIONAL calculation and comparison made. Part of the justification may be weaker.	Integrates the context to justify the funding of the Auckland store expansion by using the equity ratio and return on equity percentage to support the recommendation. At least two reasons, with some new calculations and comparisons made.

N0 = No response; no relevant evidence.

Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0 – 8	9 – 13	14 – 18	19 – 24