

Assessment Schedule – 2007**Accounting: Analyse and interpret information and make recommendation(s) for a sole proprietor (90225)****Evidence Statement**

Question	Evidence	Codes
ONE (a)	<p>The cost price of the inventory has been increased by 100% (doubled) in order to calculate the selling price.</p> <p>OR</p> <p>Eg If an item of inventory cost \$10 to buy, then <i>Bella's Fashion Boutique</i> will sell it for \$20.</p> <p>Judgement</p> <p>Must link the cost price of the inventory doubling / increasing by 100% to calculate the selling price (not just a general statement without the accurate figures).</p>	I
(b)	<p>One of (but not limited to):</p> <p>Reason – <i>Bella's Fashion Boutique</i> had higher Selling Prices / higher Mark-up % / sells high-end clothes. Explanation – Prices too high compared with those of her competitors means that Bella did not sell as many items of inventory because people bought them from competitors who featured lower prices / were cheaper. Explanation – This led to a lower inventory turnover because customers didn't buy from her, because the clothes were too expensive.</p> <p>Reason – <i>Bella's Fashion Boutique</i> used less Advertising. Explanation – The lower distribution cost % indicates that Bella is not promoting her store / stock as much as her competitors, resulting in fewer customers and fewer items being sold compared with the other stores in her industry.</p> <p>Reason – <i>Bella's Fashion Boutique</i> paid less sales commission. Explanation – The lower distribution cost % indicates that Bella has not paid her sales staff commission, so they aren't trying as hard to sell the stock, which means fewer items being sold compared with the other stores in her industry.</p> <p>Reason – Bella has a smaller shop than most of her competitors. Explanation – This would result in less stock and a lower level of sales compared with her competitors.</p> <p>Reason – Bella sells less trendy (fashionable) clothes than her competitors. Explanation – This would mean that customers are not attracted to her clothes and will buy from her competitors instead, which will means less sales than her competitors / which will lead to a lower inventory turnover and less sales than the others stores in this industry.</p> <p>Judgement</p> <p>First I – Identifying a valid reason. Second I – Must explain HOW / WHY the valid reason has resulted in a lower level of sales by reference to customers buying elsewhere / not buying from her / comparison with others (should cover the idea in the bolded points as a guide).</p>	I and I

Question	Evidence	Codes
(c)	<p>Bella's administration expense (percentage) OR total / operating expenses (percentage) is a lot higher than the industry average.</p> <p>This indicates (for example) poor office administration / wastage of office supplies / Bella spend a lot more on office stationery, eg than other business (which means that even though her gross profit % is higher, this is being absorbed by the expenses, resulting in a lower Net Profit %).</p> <p>OR</p> <p>This is shown by the <i>Bella's Fashion Boutique</i>' administration expense percentage being 18% and the industry average being 4%, therefore her Net Profit percentage will be lower despite her Gross Profit percentage being higher.</p> <p>OR</p> <p>Bella's administration expense percentage is 14% greater than the industry average and this has not been offset by the finance costs and distribution costs being lower than the average, resulting in a 10% fall in the net profit percentage.</p> <p>Judgement</p> <p>First I – Recognising that Administration / Total expenses (percentage) are high.</p> <p>Second I – Must be comparative to the industry averages AND linking to specific Administration expenses example being greater / specific percentages quoted from the resource used to explain fall / logical linking to the lower Net Profit percentage.</p>	I and I
(d)	<p>Examples (but not limited to):</p> <ul style="list-style-type: none"> • Decrease her Mark-up % (decrease prices / have a discount sale). By doing this she will hope to attract more customers and increase the volume of sales, which should increase the Net Profit (and in turn the Net Profit percentage). • Decrease a specific expense (if distribution cost, it has to be carefully explained so that it doesn't decrease sales – see below). By decreasing ... eg electricity expenses she could find a cheaper supplier or make sure the lights are turned off at night – this will make sure that her expense falls and increases her Net Profit (and Net Profit percentage). • By decreasing advertising (without decreasing sales). eg using black and white advertisements instead of colour ones she is reducing her distribution expenses and in turn improving her Net Profit (and Net Profit percentage increases). However, she must be careful not to lose customers if she reduces her advertising. eg If she finds a cheaper advertising agency this will decrease costs, which will increase Net Profit. • Repay some of the Loan / Overdraft / Mortgage. This will reduce the Interest expense (Finance cost), which will increase the amount of Net Profit (and Net Profit percentage increases). • Change her Sales Mix / stock more trendy clothes. By changing her stock to trendy clothing / her stock to lower priced items she should attract more customers which will increase sales and Net Profit (and Net Profit percentage). <p>Note: Decreasing wages / firing workers etc are not a valid recommendation to reduce expenses. This will cause higher redundancy costs, and is usually not possible to do due to contracts.</p> <p>Judgement</p> <p>R – One of above recommendations (can be awarded from justification if the recommendation has insufficient detail or is unclear). Also allow Increase in Advertising.</p> <p>J – Clearly links the recommendation (specific decrease in expense /</p>	R and J

	increase in sales / attracting more customers) to an increase in Net Profit / Net Profit Percentage. NO invalid or incorrect statement.																						
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<p>TWO Part A</p>	<table border="1"> <thead> <tr> <th data-bbox="304 275 743 324">Analysis Measure</th> <th data-bbox="743 275 1050 324">2007</th> <th data-bbox="1050 275 1193 324">Codes</th> </tr> </thead> <tbody> <tr> <td data-bbox="304 324 743 405">Administration Expenses percentage</td> <td data-bbox="743 324 1050 405">6.67%</td> <td data-bbox="1050 324 1193 405">A</td> </tr> <tr> <td data-bbox="304 405 743 472">Net Profit percentage</td> <td data-bbox="743 405 1050 472">1.21%</td> <td data-bbox="1050 405 1193 472">A</td> </tr> <tr> <td data-bbox="304 472 743 607">Age of Accounts Receivable</td> <td data-bbox="743 472 1050 607">69 days (allow 68.82 days)</td> <td data-bbox="1050 472 1193 607">A</td> </tr> <tr> <td data-bbox="304 607 743 674">Inventory Turnover</td> <td data-bbox="743 607 1050 674">3.08 times</td> <td data-bbox="1050 607 1193 674">A</td> </tr> <tr> <td data-bbox="304 674 743 741">Return on Average Equity</td> <td data-bbox="743 674 1050 741">0.95%</td> <td data-bbox="1050 674 1193 741">A</td> </tr> <tr> <td data-bbox="304 741 743 808">Current Ratio</td> <td data-bbox="743 741 1050 808">2.53:1</td> <td data-bbox="1050 741 1193 808">A</td> </tr> </tbody> </table>	Analysis Measure	2007	Codes	Administration Expenses percentage	6.67%	A	Net Profit percentage	1.21%	A	Age of Accounts Receivable	69 days (allow 68.82 days)	A	Inventory Turnover	3.08 times	A	Return on Average Equity	0.95%	A	Current Ratio	2.53:1	A	(See left)
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<p>TWO Part B (a)</p>	<p>Meaning – <i>Music Magic</i> has used / spent 37.58 cents (37.58%) for every \$1 of (net) sales on distribution costs / expenses to promote and distribute the inventory of the business.</p> <p>Judgement The distribution costs (or accurate explanation of) being spent as an accurate proportion (37.58%) of sales made.</p>	I																					
<p>(b)</p>	<p>One Of: Reason – Increase in advertising. Explanation – Laura would have had to advertise her new shop, which would increase her distribution expenses, and these as a percentage of sales.</p> <p>Reason – Increase in sales wages / shop rent / opening a new store. Explanation – Opening a new store would mean employing more staff / renting a new building (or any other specific distribution expense), which would increase her distribution expenses, and these as a percentage of sales.</p> <p>Reason – Increased deliveries / Increased Petrol. Explanation – Opening a new store would mean Laura now has more customers so she might be doing more deliveries, which increases her petrol expense, which increases her Distribution Expenses and these as a percentage of sales NOT – reference to delivery on stock between stores / purchases as this is a COGS expense.</p> <p>NOT – Sales fell.</p> <p>Judgement First I – Identifying a valid reason. Reference to an expense that is not a distribution expense makes the answer incorrect. Second I – Explains the valid reason. Answer must be linked to opening the new store, a specific increase in distribution expense and Distribution costs / Distribution costs %.</p>	I and I																					

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(c)	<p>Reason – This has increased because Laura / <i>Music Magic</i> had to borrow money in order to finance the expansion / new shop in Ashburton. This would have increased the amount of interest she paid, which in turn would increase the Finance Cost and its percentage.</p> <p>Judgement First I – Identifying the increase in loans (overdrafts / mortgages) / interest / interest rates / borrowing. Second I – Must link the borrowing of money for new shop to the increase in interest / finance costs and finance cost percentage.</p>	I and I
(d)	<p>One of:</p> <ul style="list-style-type: none"> • Many of the expenses Laura incurred this year were a lot larger than normal due to opening the store / one off set-up expenses – next year these expenses (eg advertising, lawyer's fees) will not be as much, which will increase the Net Profit. • The new shop is now a year old in Ashburton so she will have developed a reputation and customer base / increased market share, which should continue to increase the sales and the Net profit in the future. • Widely accepted that businesses are not very profitable in the first year of opening, so she needs to give it another year before she gets disheartened because the Net Profit / sales should improve in future years. • Sales have increased from \$96 000 to \$16 5000 (71.88%), which is really pleasing and she can expect this to continue to improve as the business becomes established / if she decreases her expenses the Net Profit will improve. <p>Judgement First I – A valid reason that is identified based on this year's events. Second I – The valid reason explained by relevant supporting information (the answers in bold are a guide for the level expected – not just a one-line statement). Must also link to improving profit / sales / profitability in the future.</p>	I and I

Question	Evidence	Codes
<p>Part C (a)</p>	<p>Current ratio shows <i>Music Magic</i> that it has \$4.40 current assets to repay every \$1 of current liability (as they fall due in the next accounting period / next year). This means that they should be able to repay their short term / current debts as they fall due.</p> <p>OR</p> <p>This means that they might not be utilising their (current) assets / cash wisely as they have large current assets / have too many current assets so they should look at investing them in another way.</p> <p>Judgement</p> <p>First I – Must state \$4.40 current assets to repay every \$1 of current liability (NOT assets / liabilities on own or immediate or 4–6 weeks).</p> <p>Second I – Indicate they CAN repay / meet SHORT term (NOT immediate or 4–6 weeks) debts. OR poor utilisation of short term assets and investing in more revenue generating assets.</p>	<p>I</p> <p>and</p> <p>I</p>
<p>(b)</p>	<p>Reason – Purchase of inventory on credit / cash. Explanation:</p> <ul style="list-style-type: none"> • This means that inventory increases and this does not increase the liquid assets / the accounts payable which is a liquid liability increasing, which worsens the liquid ratio. • This means that the bank has decreased from positive to secured overdraft, which decreases the liquid assets (not increase liquid liabilities as it is secured), which worsens the liquid ratio. <p>OR</p> <p>Reason – Repaid Loan (or other liability). Explanation:</p> <ul style="list-style-type: none"> • This means that bank has decreased which decreased the current / liquid assets which have led to a decrease in the liquid ratio. <p>OR</p> <p>Reason – Purchased a Non Current asset for cash / short term credit. Explanation:</p> <ul style="list-style-type: none"> • This means that the non current asset (or example of) increases and this does not increase the liquid assets / the accounts payable which is a liquid liability increasing, which worsens the liquid ratio. • This means that the bank has decreased from positive to secured overdraft, which decreases the liquid assets (not increase liquid liabilities as it is secured), which worsens the liquid ratio. <p>NOT Cash Drawings (because Equity increase)</p> <p>Judgement</p> <p>First I – Correct reason identified (allow the increase or decrease in specific relevant current liability / asset accounts eg Bank decreased).</p> <p>Second I – Reason explained by linking clearly how the reason impacts on the specific ledger account and on liquid liabilities and / or liquid assets, and through to decreasing the liquid ratio.</p>	<p>I</p> <p>and</p> <p>I</p>

Question	Evidence	Codes
(c)	<p>R – Laura / owner could invest more money / cash (not assets) into the business.</p> <p>J – This will increase the liquid asset bank / cash flow, which increases the liquid ratio, and it increases the capital, which increases the equity ratio.</p> <p>OR</p> <p>R – Selling Inventory / Non Current Asset for cash / credit (allow discount sale). J - This will increase the liquid asset bank (or accounts receivable) / cash flow, which increases the liquid ratio, and it increases the capital by increasing the net profit, which increases the equity ratio.</p> <p>NOT – Take out a long term loan unless very clearly only taking out the amount needed to repay the accounts payable and GST (not the overdraft).</p> <p>Judgement R – one of above J – Must link the increase in bank/accounts receivable increasing liquid assets (or using the money to repay accounts payable and decreasing liquid liabilities) and the liquid ratio OR increasing capital / increasing profit to increase equity which increases the equity ratio (NOT decreasing bank overdraft because this is secured unless state to make it a positive bank number again).</p> <p>DO NOT award J if an incorrect statement</p>	<p>R</p> <p>and</p> <p>J</p>
Part D	<p>Examples, but not limited to (Maximum credit two valid reasons)</p> <p>YES circled (good decision):</p> <ul style="list-style-type: none"> • Positive net profit <ul style="list-style-type: none"> ▪ which will lead to a better return on investment / covering expenses so is making more profit than last year as set up cost are now paid. • Potential for growth in future years <ul style="list-style-type: none"> ▪ because as her reputation improves so should her customer base and sales. • New store now established and many expenses will not need to be paid this year, or will be less, which should lead to a higher profit in the future. • The business can repay its short term debts <ul style="list-style-type: none"> ▪ because the Current ratio is 2.53:1 (allow follow through). • The business is financially stable <ul style="list-style-type: none"> ▪ because the Equity ratio is 0.79:1. • Room to reduce mark-up <ul style="list-style-type: none"> ▪ which should help increase the volume of sales. • The liquid ratio can be improved easily by Laura investing more money into the business so that the business will be able to meet its immediate debts. • Sales increased by over 70% <ul style="list-style-type: none"> ▪ indicating future improved net profit as establishment expenses fall. • By opening a second store she is spreading her risk <ul style="list-style-type: none"> ▪ which means if one store gets into financial difficulty then she has the other to fall back on and still make a profit. <p>NO circled (bad decision):</p> <ul style="list-style-type: none"> • Negative Net Profit percentage change / Net Profit has fallen <ul style="list-style-type: none"> ▪ From \$16000 to \$2000 (or -87.5%), which is a poor trend and detrimental if it continues. • Decrease in equity ratio which indicates the liabilities have funded a greater proportion of the business assets / more reliance on debt, <ul style="list-style-type: none"> ▪ which increases future interest repayments. • She probably can't repay her immediate debts /liquid ratio decreased <ul style="list-style-type: none"> ▪ Because the Liquid ratio has fallen from 1.47:1 (positive) to 0.58:1 and is now at a level indicating poor liquidity 	<p>I</p> <p>and</p> <p>I</p> <p>AND</p> <p>I</p> <p>and</p> <p>I</p> <p>(two Is for each reason)</p>

	<ul style="list-style-type: none"> • Increase / creation of a bank overdraft / decreasing cash flow <ul style="list-style-type: none"> ▪ which will increase interest repayment in the leading to a decrease in profit. • Decrease in the Return on Equity <ul style="list-style-type: none"> ▪ and the percentage is much lower than current interest rates for money deposited in a bank, which indicates a poor return on her money invested. ▪ she was making a better return on her investment when she only had the store. • There was an increase in expenses resulting in a decrease in Net Profit <ul style="list-style-type: none"> ▪ which is evidenced mainly in the large increase in distribution cost percentage from 18.75% to 37.58% ▪ She was making \$14 000 more profit last year. • Laura now has to travel a lot more, which increases her stress / increases her petrol expenses <ul style="list-style-type: none"> ▪ this means she is away from home more / decreases the profit of the business if she didn't travel. <p>Judgement Must make a clear Yes or NO decision (no credit for this).</p> <p>First I – a valid reason described. Second I – the valid reason explained and substantiated with ratio / figures / logical argument – guided by the information in bold above. Not just a list of lots of different points – one point well detailed.</p> <p>Two Is for each valid reason explained – maximum TWO reasons (4 Is).</p>	
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Judgement Statement

Criterion One

Achievement	Achievement with Merit	Achievement with Excellence
3 A	4 A	5 A

Criterion Two

Achievement	Achievement with Merit	Achievement with Excellence
8 Is and 1 R	11 Is and 2 Rs OR 15 Is and 1 R	15 Is and 2 Rs and 1J

Codes:

A = Analysis calculations

I = Interpret (as per explanatory note #6)

R = Recommendations

J = Justification