

Assessment Schedule – 2008

Accounting: Analyse and interpret information and make recommendation(s) for a sole proprietor (90225)

Evidence Statement

Codes:

A = Analysis calculations

I = Interpret (as per explanatory note #6)

R = Recommendations

J = Justification

Q	Evidence			Code															
<p>One (a)</p>	<table border="1"> <thead> <tr> <th data-bbox="156 600 954 651">Analysis measure</th> <th data-bbox="962 600 1114 651">2007</th> <th data-bbox="1121 600 1281 651">2008</th> </tr> </thead> <tbody> <tr> <td data-bbox="156 663 954 707">Mark-up percentage</td> <td data-bbox="962 663 1114 707">250%</td> <td data-bbox="1121 663 1281 707">220%</td> </tr> <tr> <td data-bbox="156 719 954 763">Café expenses percentage</td> <td data-bbox="962 719 1114 763">35%</td> <td data-bbox="1121 719 1281 763">32.5%</td> </tr> <tr> <td data-bbox="156 775 954 819">Net profit percentage</td> <td data-bbox="962 775 1114 819">12%</td> <td data-bbox="1121 775 1281 819">15%</td> </tr> <tr> <td data-bbox="156 831 954 875">Return on total assets percentage</td> <td data-bbox="962 831 1114 875">20%</td> <td data-bbox="1121 831 1281 875">34.45%</td> </tr> </tbody> </table>			Analysis measure	2007	2008	Mark-up percentage	250%	220%	Café expenses percentage	35%	32.5%	Net profit percentage	12%	15%	Return on total assets percentage	20%	34.45%	<p>A A A A</p>
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(b) (i)	<p>This tells Amali that <i>Full of Beanz</i> spent 35% (or 35 cents in every dollar) of sales on Café Expenses in 2007.</p> <p>Judgement Must mention the 35 and café expenses.</p>			<p>I</p>															
(ii)	<p>This allows Amali to monitor / manage her café expenses each year. OR This enables Amali to compare her café expenses percentage with previous periods / other cafés. OR So that Amali can see if she is spending a smaller or greater percentage of her sales on café expenses.</p> <p>Judgement Answer refers to café expenses (or an example of) and idea of some form of monitoring / comparison.</p>			<p>I</p>															
(iii)	<p>Amali may have chosen to reduce the mark-up in order to stay competitive in the local café and catering market. OR Amali may have hoped to increase her sales by making her coffee and catering cheaper.</p> <p>Judgement Valid positive reason for reducing the mark-up (NOT, for example, Amali had a discount sale).</p>			<p>I</p>															
(iv)	<p>Amali has been able to manage her expenses well and reduce the total expenses percentage / café expense percentage, thereby increasing the net profit percentage. OR Amali has been able to manage her expenses well and reduce the total expenses / café expenses, thereby increasing the net profit. OR The amount of expenses including café and / or administrative / total expenses has not increased by as much as the sales revenue has increased.</p> <p>Judgement Recognises reduction in expenses <i>or</i> expenses have increased less than sales <i>or</i> expense % falls 1 I Recognises reduction in expenses <i>or</i> expenses have increased less than sales leads to a higher net profit (and therefore NP%) <i>or</i> fall in expense % leads to increasing net profit % 2 I's</p>			<p>I <i>and</i> I</p>															
(v)	<p>The return on total assets has improved, which shows Amali that the assets in <i>Full of Beanz</i> are being used more efficiently in generating profit.</p> <p>Judgement Just says return improved: 1 I. Explains assets are being used more efficiently 1 I.</p>			<p>I</p>															

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Two (a)	<table border="1"> <thead> <tr> <th data-bbox="181 241 802 297">Analysis Measure</th> <th data-bbox="802 241 1062 297">2007</th> <th data-bbox="1062 241 1339 297">2008</th> </tr> </thead> <tbody> <tr> <td data-bbox="181 297 802 353">Current ratio</td> <td data-bbox="802 297 1062 353">2.6:1</td> <td data-bbox="1062 297 1339 353">0.50:1</td> </tr> <tr> <td data-bbox="181 353 802 409">Liquid ratio</td> <td data-bbox="802 353 1062 409">0.93:1</td> <td data-bbox="1062 353 1339 409">0.27:1</td> </tr> <tr> <td data-bbox="181 409 802 465">Inventory turnover</td> <td data-bbox="802 409 1062 465">24 times</td> <td data-bbox="1062 409 1339 465">25.51 times</td> </tr> <tr> <td data-bbox="181 465 802 521">Age of accounts receivable</td> <td data-bbox="802 465 1062 521">10 days</td> <td data-bbox="1062 465 1339 521">7 days</td> </tr> </tbody> </table>	Analysis Measure	2007	2008	Current ratio	2.6:1	0.50:1	Liquid ratio	0.93:1	0.27:1	Inventory turnover	24 times	25.51 times	Age of accounts receivable	10 days	7 days	A A A A
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(b) (i)	<p>This tells Amali that <i>Full of Beans</i> has 93 cents of liquid assets to repay every \$1 of liquid liabilities. This means that <i>Full of Beans</i> may have difficulty meeting its immediate debts as they fall due (in the next 4–6 weeks).</p> <p>Judgement For 1st I must have the 93c and must say liquid or quick or immediate twice – not current or short-term (as too vague) For 2nd I must refer idea of difficulty / may not be able to and meeting liquid / immediate / 4–6 weeks debts – not current or short-term.</p>	I and I															
(ii)	<p>During 2008 <i>Full of Beans</i> purchased café equipment / property, plant and equipment using some cash (therefore increasing / creating their bank overdraft).</p> <p>Judgement Idea of purchasing more PPE for cash.</p>	I															
(iii)	<p><i>Full of Beans</i> may not be able to pay its bills on time and some suppliers may refuse to supply inventory. OR <i>Full of Beans</i> may incur additional costs such as interest on overdue accounts. OR <i>Full of Beans</i> may have difficulty meeting its immediate debts and this may mean that it has a poor credit rating.</p> <p>Judgement Any valid consequence / result of not paying debt on time / or additional costs to pay. Note: If the candidate's answer in part (a) indicates a rising trend in the liquid ratio, he or she can be awarded an I if the answer is consistent with the result – for example, if the result is still below 1:1, then the answers above stand; if the result is above 1:1, then the following answer could get the award of I. <i>Full of Beans</i> will have a good relationship with its suppliers and may receive a discount for prompt payment / <i>Full of Beans</i> will have a good credit rating as it pays its accounts on time.</p>	I															
(iv)	<p>The liquid ratio can be improved by:</p> <p>Transaction</p> <ul style="list-style-type: none"> Amali introduces \$10 000 cash (amount can be anything reasonable). <i>If amount is greater than \$8 000:</i> This will increase the (liquid asset) bank, which will improve the liquid ratio. <i>If amount is less than \$8 000:</i> This can be used to repay accounts payable, which will reduce the (liquid liabilities) and improve the liquid ratio. <p>Transaction</p> <ul style="list-style-type: none"> <i>Full of Beans</i> takes out a long-term loan of \$3 000 (any reasonable amount accepted). <i>If amount is greater than \$8 000:</i> This will increase the (liquid asset) bank, which will improve the liquid ratio. <i>If amount is less than \$8 000:</i> This can be used to repay accounts payable, which will reduce the (liquid liabilities) and improve the liquid ratio. <p>Transaction</p> <ul style="list-style-type: none"> Sell inventory on credit / cash \$500 (must be reasonable knowing that inventory cost is \$4 800) <i>If for cash:</i> This can be used to repay accounts payable, which will reduce the (liquid liabilities) and improve the liquid ratio. 	R and J															

	<p><i>If on credit:</i> This will increase the (liquid asset) of accounts receivable, which will help to improve the liquid ratio.</p> <p>Judgement R = must include a valid transaction; doesn't need correct number for owner's contribution, though must be reasonable. J = justification must be linked to HOW it will improve the liquid ratio so must link the change in accounts therefore improving liquid ratio</p>	
Q	Evidence	Code
Three (a)	<p>This tells Jan that on average the inventory of <i>Sunshine Sushi</i> is sold 24 times per year (every two weeks or every 15 days), which is better than the industry average.</p> <p>Judgement 1st I for idea of on average, inventory sold 24 times. 2nd I for turnover is better than the industry average.</p>	I <i>and</i> I
(b)	<p>As Jan's accounts receivable customers are taking 48 days (almost seven weeks) to pay her, she has a shortfall of cash between when she must pay her accounts payable and when she receives her cash from debtors.</p> <p>Judgement Idea of cash not coming quickly enough from accounts receivable to pay accounts payable/ accounts.</p>	I
(c)	<p>The age of accounts receivable can be improved by:</p> <ul style="list-style-type: none"> • Charge interest on overdue accounts. <ul style="list-style-type: none"> ○ This should encourage the debtors to pay their accounts more quickly, which reduces the amount of time they have money outstanding to the firm. • Offer a discount for prompt payment (eg two weeks). <ul style="list-style-type: none"> ○ This should encourage debtors to pay more quickly as they will want to take advantage of the discount, which reduces the amount of time that they have money owing to <i>Sunshine Sushi</i>. • Send out letters of reminders for overdue accounts and if that does not work / use a debt collection agency. <ul style="list-style-type: none"> ○ This should encourage people who weren't paying their accounts to pay them, which will reduce the overall age of the accounts receivable. • Improve credit policy / credit control procedures <ul style="list-style-type: none"> ○ By improving credit policy such as completing more thorough credit checks on credit customers, it could reduce the likelihood of possible future poor paying customers. <p>Judgement R = must include a valid recommendation. J = justification must be linked to HOW it will reduce the age of accounts receivable.</p>	R <i>and</i> J

Q	Evidence	Code
FOUR	<p>EITHER recommend:</p> <p>Gelatos Financial eg</p> <ul style="list-style-type: none"> The net profit is higher (at \$40 000). The return on equity is higher. <p>Non-financial eg</p> <ul style="list-style-type: none"> It is situated in a mall; therefore, there will be lots of customers. The mall provides customer car parking so it is convenient for customers to access the mall The opening hours are less than <i>Kool Cones</i>, which would give Finn more leisure time. <p>OR recommend:</p> <p>Kool Cones Financial eg</p> <ul style="list-style-type: none"> Making a greater return on the purchase price, (29% pa versus 27% pa with <i>Gelatos</i>). Finn will need to borrow less (\$20 000, which will reduce his interest expense compared with <i>Gelatos</i>). <p>Non-financial eg</p> <ul style="list-style-type: none"> It is open longer hours, which means greater availability to customers. There will be lots of potential customers coming off buses regularly. <p>Judgement R = awarded if one business named <i>and</i> an attempt to give a reason. I = a valid reason given (one financial and one non-financial). J = if awarding both Is, then <i>also</i> receive the J.</p>	<p>R</p> <p>I (financial)</p> <p><i>and</i></p> <p>I (non-financial)</p> <p><i>or</i></p> <p>R</p> <p>I (financial)</p> <p><i>and</i></p> <p>I (non-financial)</p> <p>J</p>

Judgment Statement

	Achievement	Achievement with Merit	Achievement with Excellence
Criterion One	4 × A	6 × A	7 × A
Criterion Two	6 × I <i>and</i> 1 × R	8 × I <i>and</i> 2 × R	11 × I <i>and</i> 2 × R <i>and</i> 2 × J