

Assessment Schedule – 2019

Accounting: Interpret accounting information for sole proprietors (90980)

Notes to this assessment schedule:

- This assessment schedule should be read in conjunction with the Assessment Report 2019 for Level 1 Accounting.
- **Describing** a reason for a trend and making recommendations requires an action that is beyond the words in the formulae provided.
- **Explaining** a reason for a trend requires the detailed description as well as the account(s) being affected and often the classification(s), using the resources provided
- **Fully explaining** a reason for the trend requires, in addition to merit, the impact on the account(s) and the classification(s), and analysis measure, linking the ideas clearly using evidence from the resources provided for the entity.
- **Justifying** a recommendation (an action beyond normal day-to-day operations) requires a detailed recommendation outlining what will occur and how this will impact on the account(s) and classification(s) to improve the requested analysis measure for the entity.

Evidence

ONE	Evidence		Achievement	Achievement with Merit	Achievement with Excellence
(a)	Analysis Measure	2019	Calculates 2/3 analysis measures.		
	Mark-up %	56.3%			
	Gross profit %	36.0%			
	Percentage change in sales	+17.5%			
(b)	This means that in 2019 <i>Mobile World</i> increased its sales by 17.5% more than in 2018. OR For every \$1 sales in 2018, <i>Mobile World</i> received \$1.175 sales in 2019.		Describes meaning of the percentage change in sales (allow follow-through).		

<p>(c)</p>	<p>The mark-up percentage has decreased from 66.7% to 56.3% between 2018 and 2019. One possible reason for <i>Mobile World's</i> mark-up percentage decreasing is (examples include, but not limited to):</p> <ul style="list-style-type: none"> the supplier of the inventory increased its cost price for the laptops and phones and <i>Mobile World</i> kept the selling price the same, which increased the cost of goods sold and decreased the gross profit margin (mark-up) on each phone sold, and this decreased the mark-up percentage the introduction of the new laptops and tablets, which changed <i>Mobile World's</i> sales mix. The new tablets had a smaller gross profit margin / mark-up than the previous cell-phones and accessories stock, which resulted in increasing cost of goods sold and a smaller gross profit per unit, which decreased the mark-up percentage. The new stock needed a smaller margin to stay competitive <i>Mobile World</i> held a lot of discount sales / reduced their selling prices to promote their phones and tablets, which decreased the selling price, which decreased the gross profit margin / mark-up while the cost of goods purchased / sold remained constant, which therefore decreased the mark-up percentage. <p>Note: Mark-up is the relationship between cost price and selling price of inventory. Increasing sales without a change to one of these factors does not necessarily change the mark-up percentage.</p>	<p>Describes one reason for the trend in mark-up percentage (allow follow-through).</p>	<p>Explains one reason for the trend in mark-up percentage for <i>Mobile World</i>.</p>	<p>Fully explains one reason for the trend in mark-up percentage on communication devices for <i>Mobile World</i> by fully explaining the impact on the elements (Cost price, selling price, mark-up, gross profit margin).</p>
<p>(d)</p>	<p><i>Mobile World</i> should increase the gross profit percentage by:</p> <ul style="list-style-type: none"> finding a cheaper supplier / negotiating a discount with current supplier of their communication devices while keeping the selling price of the electronics the same. This will increase the mark-up percentage by decreasing the cost price of the tablets / phones (decreasing cost of goods sold), and therefore increases the gross profit margin on each item sold, which increases gross profit and the gross profit percentage. having less discount sales on their communication devices / promoting the higher mark-up items of their original phones and accessories increases the gross profit on each item sold. This will increase the gross profit while not increasing the cost of goods sold / cost price and increases the gross profit as a percentage of sales. 		<p>Makes a valid recommendation to improve <i>Mobile World's</i> gross profit percentage in the future.</p>	<p>Justifies a recommendation to improve the gross profit percentage on communication devices for <i>Mobile World</i>.</p>

N1	N2	A3	A4	M5	M6	E7	E8
ONE correct analysis measure calculation or partial description.	Any ONE Achievement description.	Any TWO Achievement descriptions.	All THREE Achievement descriptions.	ONE explanation at Merit level: • one reason for trend explained for <i>Mobile World</i> . OR • one valid recommendation to improve gross profit percentage for <i>Mobile World</i> .	TWO explanations at Merit level: • one reason for trend explained for <i>Mobile World</i> . AND • one valid recommendation to improve gross profit percentage for <i>Mobile World</i> .	ONE explanation at Excellence level: • one trend fully explained for <i>Mobile World</i> . OR • one justified recommendation to improve gross profit percentage for <i>Mobile World</i> .	TWO explanations at Excellence level: • one trend fully explained for <i>Mobile World</i> . AND • one justified recommendation to improve gross profit percentage for <i>Mobile World</i> .

N0 = No response; no relevant evidence.

TWO	Evidence		Achievement	Achievement with Merit	Achievement with Excellence
(a)	Analysis measure	2019	Calculates 2/3 analysis measures.		
	Distribution cost %	33.2%			
	Administrative expense %	3.0%			
	Finance cost %	2.1%			
(b)	<p>Max shouldn't be too concerned about the loss, due to the high amount of expenses that were due to introducing the new inventory and should be reduced next year.</p> <p>The distribution cost percentage result tells Max that <i>Mobile World</i> has spent 33.2 cents of every \$1 of sales on distribution costs, e.g. advertising and sales wages.</p>		Describes the distribution cost percentage for 2019 (allow follow-through).		
	<p>The finance cost percentage has increased from 1.5% in 2018 to 2.1% in 2019 due to the increase in interest on loan payments, which is a result of the increase in loan of \$60 000 / from \$80 000 to \$140 000, as <i>Mobile World</i> needed to borrow to purchase the new inventory / cover the loss in 2019, cover the large drawings, purchase PPE.</p> <p>(NOT increase in interest rates, not interest on mortgage/overdraft.)</p>		Describes a valid reason for the trend in finance cost percentage.	Explains a valid reason for the trend in finance cost percentage for <i>Mobile World</i> .	Fully explains the increase in interest on loan due to the loan increasing \$60 000 / reason for it increasing as the reason for the trend in finance cost percentage for <i>Mobile World</i> .
	<p>To improve the distribution cost percentage in 2020, <i>Mobile World</i> needs to reduce its distribution costs. This should be easy to achieve by (examples include but not limited to):</p> <ul style="list-style-type: none"> decreasing the staff training expense as the staff have been upskilled in the new laptop and tablet inventory / have been working for <i>Mobile World</i> for three years so less can be spent on training and this won't decrease sales. This will reduce staff training expenses and decrease the distribution costs and therefore the distribution costs as a percentage of sales. The decrease in distribution cost will decrease total expenses (providing the administration and finance cost remain constant), while not decreasing sales, will lead to an increase in profit in the next year. decreasing the advertising, providing the sales do not decrease (detail how relevant to the recommendation). The extra advertising needed to promote the new inventory in 2019 will not be needed this year, so <i>Mobile World</i> can return to its usual advertising budget in 2020 / find a cheaper form of advertising (specific example including how it will not decrease sales / possibly increase sales). This will reduce advertising expense and decrease the distribution costs and therefore the distribution costs as a percentage of sales. This decreases in total expenses, while not decreasing sales, will lead to an increase in profit in the next year. 			Makes a valid recommendation for improving distribution costs percentage for <i>Mobile World</i> that does not negatively impact on sales.	Justifies a valid recommendation for improving the distribution cost percentage for <i>Mobile World</i> with a specific detailed example linked to the resources provided, decreasing total expenses, not decreasing sales, and therefore increasing profit.

N1	N2	A3	A4	M5	M6	E7	E8
One analysis measure calculated correctly, or trend identified.	Any ONE Achievement description.	Any TWO Achievement descriptions.	Any THREE Achievement descriptions.	ONE explanation at Merit level: <ul style="list-style-type: none"> • one reason for trend explained for <i>Mobile World</i>. OR <ul style="list-style-type: none"> • one valid recommendation for <i>Mobile World</i> to improve distribution cost percentage. 	TWO explanations at Merit level: <ul style="list-style-type: none"> • one reason for trend explained for <i>Mobile World</i>. AND <ul style="list-style-type: none"> • one valid recommendation for <i>Mobile World</i> to improve distribution cost percentage. 	ONE explanation at Excellence level: <ul style="list-style-type: none"> • one reason for trend fully explained for <i>Mobile World</i>. OR <ul style="list-style-type: none"> • one justified recommendation for <i>Mobile World</i> to improve distribution cost percentage and impact on profit. 	TWO explanations at Excellence level: <ul style="list-style-type: none"> • one reason for trend fully explained for <i>Mobile World</i>. AND <ul style="list-style-type: none"> • one justified recommendation for <i>Mobile World</i> to improve distribution cost percentage and impact on profit.

N0 = No response; no relevant evidence.

THREE	Evidence		Achievement	Achievement with Merit	Achievement with Excellence								
(a)	<table border="1"> <thead> <tr> <th data-bbox="253 240 566 288">Analysis measure</th> <th data-bbox="566 240 831 288">2019</th> </tr> </thead> <tbody> <tr> <td data-bbox="253 288 566 336">Current Ratio</td> <td data-bbox="566 288 831 336">7.29:1</td> </tr> <tr> <td data-bbox="253 336 566 384">Liquid Ratio</td> <td data-bbox="566 336 831 384">1.15 :1</td> </tr> <tr> <td data-bbox="253 384 566 432">Equity Ratio</td> <td data-bbox="566 384 831 432">0.51 :1</td> </tr> </tbody> </table>	Analysis measure	2019	Current Ratio	7.29:1	Liquid Ratio	1.15 :1	Equity Ratio	0.51 :1		Calculates 2/3 analysis measures correctly.		
Analysis measure	2019												
Current Ratio	7.29:1												
Liquid Ratio	1.15 :1												
Equity Ratio	0.51 :1												
(b)	<p>The liquid ratio for 2018 means that <i>Mobile World</i> has \$1.63 liquid assets to repay every \$1 of liquid liabilities.</p> <p>This means that <i>Mobile World</i> should be able to repay its immediate debts as they fall due in the normal course of business in the next 4 to 6 weeks.</p>		Describes the liquid ratio (one part).	Explains the liquid ratio for <i>Mobile World</i> (both parts).									
(c)	<p>A possible reason for the decrease in the equity ratio for <i>Mobile World</i> from 0.69:1 to 0.51:1 is (examples include, but not limited to):</p> <ul style="list-style-type: none"> • <i>Mobile World</i> made a loss of \$12 970 (profit decrease by \$34 570) for the year in 2019. This loss decreased capital, which decreased the equity, which decreased the equity ratio as the liabilities increased to help cover the loss/asset bank decreased. • <i>Mobile World</i> increased its loan by \$60 000 in order to purchase the new laptop & tablet inventory / new property plant and equipment / cover the loss / cover the large drawings. This meant that liabilities have increased and total assets increased / no change in capital (or decreased depending on scenario used), which decreased the equity ratio. • Max withdrew \$19 086 drawings during the year assuming Max didn't invest further assets this year (or Max withdrew large amounts of cash drawings this year as he didn't receive wages). This decreased the closing equity and decreased bank, which decreased assets / increased loan to fund this. The decrease in equity and increase in total assets resulted in a decrease in equity ratio for <i>Mobile World</i>. <p>Note: Increasing the loan does not cause a decrease in equity.</p>		Describes a reason for the trend in equity ratio.	Explains a reason for the trend in equity ratio for <i>Mobile World</i> .	Fully explains a reason for the trend in equity ratio for <i>Mobile World</i> by detailing the impact on total assets, total liabilities and equity.								

(d)	<p><i>Mobile World</i> could improve the equity ratio by (examples include, but not limited to):</p> <ul style="list-style-type: none"> Max investing more cash / assets into <i>Mobile World</i>. This will increase the current asset bank and increase the capital, which will increase equity and increase total assets, and liabilities will remain the same, which improves/increases the equity ratio. Max investing more cash into <i>Mobile World</i> that he uses it to pay off <i>Mobile Worlds</i> accounts payable / loan. This will decrease liabilities e.g. the current liability accounts payable / non current liability loan / no change to assets, and also increase the capital from Max's investment, which will increase equity and also improve the equity ratio. Selling off unused / unneeded equipment at a profit(gain) for cash / (and using the cash to repay accounts payable). This will increase the asset bank by more than the decrease in PPE, and the gain will increase profit which increases equity, and no change to liabilities, therefore increasing equity ratio / (this will decrease liabilities by a greater proportion than the decrease in assets which results in liabilities funding less assets, therefore the owner has funded a greater percentage, which increases equity ratio). <p>NOTE: Recommendation cannot be answer to (c) in reverse. Decrease drawings is not accurate unless linked to being less than the profit for next year. Pay Max wages instead of drawings does not improve equity as the same amount will decrease profit which has the same decreasing flow-on to equity.</p>		<p>Makes a recommendation for improving the equity ratio for <i>Mobile World</i>.</p>	<p>Justifies a recommendation for improving the equity ratio for <i>Mobile World</i>.</p>
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N1	N2	A3	A4	M5	M6	E7	E8
One analysis measure calculated correctly, or trend identified.	Any ONE Achievement description.	Any TWO Achievement descriptions.	Any THREE Achievement descriptions.	ONE explanation at Merit level: <ul style="list-style-type: none"> Explain liquid ratio for <i>Mobile World</i> OR <ul style="list-style-type: none"> one reason for trend in equity ratio explained for <i>Mobile World</i> OR <ul style="list-style-type: none"> one valid recommendation for <i>Mobile World</i> to improve equity ratio. 	THREE explanations at Merit level: <ul style="list-style-type: none"> Explain liquid ratio for <i>Mobile World</i> AND <ul style="list-style-type: none"> one reason for trend in equity ratio explained for <i>Mobile World</i> AND <ul style="list-style-type: none"> one valid recommendation for <i>Mobile World</i> to improve equity ratio. 	ONE explanation at Excellence level: <ul style="list-style-type: none"> one reason for trend in equity ratio fully explained for <i>Mobile World</i> OR <ul style="list-style-type: none"> Justifies one valid recommendation for <i>Mobile World</i> to improve equity ratio. 	TWO explanations at Excellence level: <ul style="list-style-type: none"> one reason for trend in equity ratio fully explained for <i>Mobile World</i> AND <ul style="list-style-type: none"> Justifies one valid recommendation for <i>Mobile World</i> to improve equity ratio.

N0 = No response; no relevant evidence.

Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0 – 7	8 – 13	14 – 18	19 – 24