Assessment Schedule – 2021

Accounting: Interpret accounting information for sole proprietors (90980)

Evidence

<table>
<tr><th>ONE</th><th>Evidence</th><th></th></tr>
<tr><td>(a)</td><td><table><tr><td>Analysis Measure</td><td>2021</td></tr><tr><td>Mark-up %</td><td>228.2 %</td></tr><tr><td>Gross profit %</td><td>69.5 %</td></tr><tr><td>Percentage change in sales</td><td>+26.8 %</td></tr></table></td><td>2/3 = A</td></tr>
<tr><td>(b)</td><td>This means that in 2020, Bike World increased the cost price of its bike inventory by 213.5% to get the selling price. This means that if a (road) bike costs Bike World $1 000 to buy, they would sell it for $3 135.00.
OR
This means that if a (road) bike costs Bike World $1 000 to buy, there would be $2 135 gross profit.</td><td>A
M</td></tr>
<tr><td></td><td>The mark-up percentage has increased from 213.5% to 228.2% between 2020 and 2021. One possible reason for Bike World's mark-up percentage increasing is:
(Examples, not limited to)
The introduction of the e-bikes has changed the sales mix and these had a larger mark-up / gross profit margin than the mountain and road bikes and accessories. This increased the gross profit by from $179 800 to $232 800 (by $53 000), which is more than the increase in cost of goods sold of $16 000; therefore, the mark-up percentage increased.
Bike World increased the selling price of its bikes to take advantage of the government push to increase cycling and the promotion by Tourism West Coast. This allowed Baxter to increase the margin on each bike sold (the gap between the Selling Price and Cost Price has increased), increasing the gross profit while the cost of purchasing remained constant, which increased the mark-up and mark-up percentage.
Bike World negotiated a lower purchase price for the bikes now that they are selling e-bikes / buying a lot more bikes, and kept the selling price the same as for existing bikes. This allowed Baxter to increase the margin on each bike sold (the gap between the Selling Price and Cost Price has increased), increasing the gross profit while the cost of purchasing remained constant, which increased the mark-up and mark-up percentage.</td><td>A/M/E (ft)</td></tr>
<tr><td></td><td>To increase sales of the mountain bikes, Bike World should decrease its mark-up percentage by (examples, not limited to):
decreasing the selling price of the mountain bikes only / have a discount sale promotion of the mountain bikes, as they are in stock already. This will make the mountain bikes more affordable for customers, which will increase the number of mountain bikes sold, increasing sales and gross profit / The decrease in selling price while keeping the cost price the same (they already have the bikes) means that gross profit per unit will decrease, which will decrease both the mark-up percentage and the gross profit percentage of Bike World.
Note: NOT increase advertising – answer must be related to a mark-up change.</td><td>M/E</td></tr>
</table>

Achievement	**Achievement with Merit**	**Achievement with Excellence**
A*: 2/3 calculations correct. A: Describes meaning of the mark-up of 213.5%.	Explains meaning of the mark-up of 213.5%, resulting in a $1 000 bike selling for $3 135 at *Bike World*.	Fully explains one reason for the increase in mark-up percentage for *Bike World* by fully explaining the relationship of the costs / prices relevant to the new e-bikes / increased publicity.
A: Describes one reason for the trend in mark-up percentage (allow follow-through).	Explains one reason for the trend in mark-up percentage of bikes / accessories for *Bike World.*	
	Recommendation to increase mountain bike sales detailed for *Bike World* by decreasing mark-up percentage.	Justifies a recommendation to lower the mark-up percentage by decreasing the price of mountain bikes, which increases *Bike World'*s mountain bike sales by attracting more **customers,** and the impact on decreasing the gross profit margin / increasing gross profit total. No incorrect statements.

N1	**N2**	**A3**	**A4**	**M5**	**M6**	**E7**	**E8**
ONE correct analysis measure calculation *OR* partial relevant description.	Any ONE Achievement description (not A*) *OR* A* and partial relevant description.	Any TWO Achievement descriptions (A and / or A*).	THREE Achievement descriptions.	ONE explanation at Merit level:	TWO explanations at Merit level:	ONE explanation at Excellence level:	TWO explanations at Excellence level:

N0 = No response; no relevant evidence.

<table>
<tr><th>TWO</th><th>Evidence</th><th></th></tr>
<tr><td>(a)</td><td>
<table>
<tr><th>Analysis Measure</th><th>2021</th></tr>
<tr><td>Distribution costs %</td><td>41.8 %</td></tr>
<tr><td>Finance costs %</td><td>1.7 %</td></tr>
<tr><td>Profit %</td><td>19.4 %</td></tr>
</table>
</td><td>2/3 = A</td></tr>
<tr><td>(b)</td><td>The administration expense percentage result tells Baxter that Bike World has spent 6.6 cents of every $1 of sales (6.6% of sales) on administrative expenses, e.g. office salary and stationery.</td><td>A (ft)</td></tr>
<tr><td>(c)</td><td>The administrative expense percentage has decreased from 8.3% in 2020 to 6.6% in 2021. The reason for this is Bike World has maintained the same administration expenses of $44 000 while the sales have increased by $141 600 due to the introduction of the e-bikes / increase in mark-up percentage / large advertising campaign/new trails. This has increased sales while the administrative expenses have remained the same, which has decreased / improved the administrative expense percentage.</td><td>A/M/E (ft)</td></tr>
<tr><td>(d)</td><td>Bike World needs to reduce its finance costs in 2021 to improve the finance cost percentage. This should be easy to achieve by (example):

Repaying some of the mortgage (e.g. $10 000 from the bank, or Baxter invests more cash into the business and uses this to pay off the mortgage). This will mean that the interest on the mortgage will decrease, which will decrease the finance costs and the finance costs percentage, providing the sales don't decrease. This should have a slight improvement for profit as the total expenses should decrease, which increases the profit for the year.
Refinancing the mortgage when the one-year fixed term comes up. The record low interest rates in October should mean the interest rates are still lower now. So if Baxter fixes the mortgage at a lower rate than 4.45%, then the interest payments will decrease and it was now 2.25% in March 2021. This decreases the interest on the mortgage, which will decrease the finance costs and the finance costs percentage, providing the sales don't decrease. This should have a slight improvement for profit as the total expenses should decrease, which increases the profit for the year.

</td><td>M/E</td></tr>
</table>

Achievement	Achievement with Merit	Achievement with Excellence
2/3 calculations correct.		
Describes the administrative expenses percentage for 2021.		
Describes a reason for the decrease in administrative expenses percentage.	Explains the reason for the decrease in administrative expenses percentage by increasing sales (how) for *Bike World*, or AE expenses the same.	Fully explains that the decrease in administrative expense percentage is caused by the increase in sales by $141600 due to new e-bikes / tourism promotion for *Bike World,* as administrative cost stayed the same at $44 000.
	Makes a valid specific recommendation for improving finance cost percentage by decreasing interest on mortgage for *Bike World*.	Justifies a recommendation for improving the finance cost percentage for *Bike World* with a specific, detailed example linked to interest on mortgage decreasing, and not impacting sales, and leading to total expenses decreasing, leading to an increase in profit.

N1	N2	A3	A4	M5	M6	E7	E8
ONE correct analysis measure calculation *OR* partial relevant description.	Any ONE Achievement description (not A*) *OR* A* and partial relevant description.	Any TWO Achievement descriptions. (A and / or A*)	THREE Achievement descriptions.	ONE explanation at Merit level.	TWO explanations at Merit level.	ONE explanation at Excellence level.	TWO explanations at Excellence level.

N0 = No response; no relevant evidence.

<table>
<tr><th>THREE</th><th>Evidence</th><th></th></tr>
<tr><td>(a)</td><td><table><tr><th>Analysis Measure</th><th>2021</th></tr><tr><td>Current ratio</td><td>2.73 :1</td></tr><tr><td>Liquid ratio</td><td>0.70 :1</td></tr><tr><td>Equity ratio</td><td>0.45 :1</td></tr></table></td><td>2/3 = A</td></tr>
<tr><td>(b)</td><td>The liquid ratio for 2020 means that Bike World has 56 cents liquid assets to repay every $1 of liquid liabilities.
This means that Bike World is unlikely to be able to repay its immediate debts as they fall due in the normal course of business in the next 4 to 6 weeks.</td><td>A/M</td></tr>
<tr><td>(c)</td><td>A possible reason for the increase in the current ratio for Bike World from 2.31:1 to 2.73:1 is (examples, not limited to):
• Bike World started selling e-bikes (or a lot of mountain bikes haven’t been sold), which increased the value of the inventory from $52 400 to $86 800 (45 bikes to 85 bikes). This resulted in an increase in the current asset inventory far greater than the increase in current liabilities, which resulted in an increase in the current ratio.
• Bike World received a $64 000 mortgage this year (and only used $50 000 on the renovations). This increased the bank from $6 000 to $17 600. This resulted in an increase in the current asset bank, and this didn’t affect current liabilities as the mortgage is non-current, which resulted in an increase in the current ratio.</td><td>A/M/E (ft)</td></tr>
<tr><td>(d)</td><td>Bike World could improve the equity ratio by (examples, but not limited to):
• Baxter(#) should invest more cash into Bike World. This will increase the current asset bank, which increases total assets and increases the capital, which will increase equity and also improve the equity ratio. There is no change to liabilities / therefore increasing the proportion of assets funded by Baxter.
• Baxter(#) should invest more cash into Bike World and use this to pay off some of Bike World’s accounts payable / mortgage. This will decrease liabilities, e.g. the current liability accounts payable / non-current liability mortgage / no change to assets, and also increase the capital, which will increase equity and also improve the equity ratio, / therefore increasing the proportion of assets funded by Baxter.
• Selling off unused / unneeded equipment to repay mortgage / accounts payable. This will decrease liabilities by a greater proportion than the decrease in assets, which results in liabilities funding less assets, not impacting the capital / equity, therefore the owner has financed a greater percentage, which increases the equity ratio.
Note: # must clearly indicate owner / Baxter if this is the recommendation being used. ‘Getting investors’ is not valid for a Sole Proprietorship.</td><td>M/E</td></tr>
</table>

Achievement	Achievement with Merit	Achievement with Excellence
2/3 calculations correct.		
Describes the liquid ratio.	Explains the liquid ratio for *Bike World*.	
Describes a reason for the trend in current ratio.	Explains a reason for the trend in current ratio for *Bike World*.	Fully explains a reason for the increasing trend in current ratio for *Bike World.*
	Makes a recommendation for improving the equity ratio for *Bike World*.	Justifies a recommendation for improving the equity ratio for *Bike World*.

N1	N2	A3	A4	M5	M6	E7	E8
ONE correct analysis measure calculation *OR* partial relevant description.	Any ONE Achievement description (not A*) *OR* A* and partial relevant description.	Any TWO Achievement descriptions. (A and / or A*)	Any THREE Achievement descriptions.	ONE explanation at Merit level:	TWO explanations at Merit level:	ONE explanation at Excellence level:	TWO explanations at Excellence level:

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