

## Assessment Schedule – 2016

### Accounting: Interpret accounting information for entities that operate accounting subsystems (91177)

#### Evidence

##### Question One

(a)

	2015	2016
Percentage change in sales	2%	4.9%
Mark-up percentage	95%	90%

(b) The mark-up percentage means that *Papermill* has added, on average, 90% to its cost price to get the selling price. The trend shows that the amount added to cost has decreased from 95%. This fall would indicate that *Papermill* has not passed on much of the increased cost from suppliers to its customers, i.e. the price it charges is unchanged or increased only by a small amount. This response has been successful, as sales have increased by 4.9% and the gross profit has increased by \$5 000. This is because, as indicated by the industry average, *Papermill* has not increased its prices like its competitors did. Competitors passed on the increase in supplier cost, making them more expensive – which has resulted in customers choosing to buy from the cheaper option, *Papermill*, hence the 4.9% increase in sales. So, mark-up percentage will fall if the cost of goods rises, but prices stay the same.

(c) (i) The trend means that *Papermill* is earning 0.4 cents less net profit / profit for year from each dollar of sales than it did in 2015.

(ii) The distribution costs have reduced the size in the fall in the net profit / profit for year percentage by 0.5% / 0.5 cents. This is because even though the radio advertising was more expensive than the local newspaper, the increase in distribution costs to \$113 000 was at a slower rate than sales increased, which improved the distribution cost percentage, as it fell from 21.7% to 21.2%. Without the fall in the distribution cost %, the net profit / profit for year percentage could have fallen further. Candidates should reference Resource C's figures and conversation.

Question ONE	Evidence
Not Achieved	<p><b>N0</b> = No response; no relevant evidence  <b>N1</b> = Gives one description</p> <ul style="list-style-type: none"> <li>• Calculates analysis measures correctly.</li> <li>• Describes mark-up percentage.</li> <li>• Describes how the lower mark-up percentage has affected sales and / or net profit.</li> <li>• Describes meaning of net profit percentage (proportion of each sales \$ that is profit / 13 cents in every \$ of sales is profit).</li> <li>• Describes distribution cost percentage (for every \$ of sales, 21.2 cents is spent on distribution cost).</li> </ul> <p><b>N2</b> TWO of the above</p>
	<p><b>A3</b> THREE of the above  <b>A4</b> FOUR of the above</p>
Achievement	

<p><b>Merit</b></p>	<ul style="list-style-type: none"> <li>• Explains <i>Papermill's</i> successful response by recognising the mark-up percentage has fallen because Anne has not passed on the increased cost, resulting in her prices being unchanged.</li> <li>• Explains that the distribution cost percentage fell even though more was spent / radio advertising was more expensive, but sales responded to it as they increased at a faster rate (proportionally more). Must give an example.</li> </ul> <p><b>M5</b> ONE of the above  <b>M6</b> BOTH of the above</p>
<p><b>Excellence</b></p>	<ul style="list-style-type: none"> <li>• Justifies <i>Papermill's</i> successful response to increasing supplier charges, supported by relevant figures from the resource. Must include reference to competitors or industry average.</li> <li>• Justifies how the distribution costs have reduced the size of the fall in the net profit percentage by increasing net profit. (Supported by relevant figures from the resources.)</li> </ul> <p><b>E7</b> ONE of the above  <b>E8</b> BOTH of the above</p>

**Question Two**

(a)

**Analysis Measures for *Papermill***

	2015	2016
Age of accounts receivable	33 days	33 days
Inventory turnover	5.1 times per year	4.1 times per year

- (b) An age of accounts receivable of 33 days means that on average it takes *Papermill's* credit customers 33 days to pay what they owe. At 33 days it makes it easier for *Papermill* to pay its suppliers, as they usually want to be paid within a month. This means that *Papermill* will have cash available (cash flow) from its credit customers close to the time payment to suppliers is needed. The 2 per cent discount speeds up the time it takes for the credit customers to pay *Papermill*, as they want to get the discount to reduce what they have to pay, making it easier to pay suppliers. Customers paying more quickly (due to the 2% discount) decreases the age of accounts receivable.
- (c) The inventory turnover in 2015 means that on average *Papermill* sold all of its inventory 5.1 times. The planned launch has seen the turnover drop to 4.1 times in 2016 because *Papermill* has had a build-up of inventory (it is \$35 000 higher in value in 2016). This build-up is because of the online store option, which has required the business to hold more inventory to sell when online sales start in April. The turnover should improve for the year ended March 2017 as the inventory that was held as extra should be sold, as the online option gives *Papermill* a bigger market.

Question TWO	Evidence
<b>Not Achieved</b>	<p><b>N0</b> = No response; no relevant evidence  <b>N1</b> = Gives one description</p> <ul style="list-style-type: none"> <li>• Calculates analysis measures correctly.</li> <li>• Describes age of accounts receivable.</li> <li>• Describes effect of 2% discount on the age of accounts receivable (the idea of the customer paying more quickly / early decreases the age of the account receivable).</li> <li>• Describes meaning of inventory turnover.</li> <li>• Describes how online store preparations affect the inventory turnover</li> </ul> <p><b>OR</b>  why they are not concerned about the trend.</p> <p><b>N2</b> TWO of the above</p>
<b>Achievement</b>	<p><b>A3</b> THREE of the above  <b>A4</b> FOUR of the above</p>
<b>Merit</b>	<ul style="list-style-type: none"> <li>• Explains <i>Papermill's</i> good management of accounts receivable has made it easier to pay suppliers on time</li> </ul> <p><b>OR</b>  how the discount has contributed to the 33-day age (must state a reason).</p> <ul style="list-style-type: none"> <li>• Explains that the build-up of inventory is needed for the launch of the online store operation</li> </ul> <p><b>AND</b>  why they are not concerned about the trend.</p>

	<p><b>M5</b> ONE of the above  <b>M6</b> BOTH of the above</p>
<p><b>Excellence</b></p>	<ul style="list-style-type: none"> <li>• Justifies how Papermill’s good management of accounts receivable has made it easier to pay suppliers on time</li> </ul> <p><b>AND</b>  how the discount has contributed to this (refers to improved cash flow).</p> <ul style="list-style-type: none"> <li>• Justifies how although the inventory turnover has dropped, it is not of concern because of the online launch in April. A bigger market is implied; must include figures.</li> </ul> <p><b>E7</b> ONE of the above  <b>E8</b> BOTH of the above</p>

**Question Three**

(a)

**Analysis Measures for Papermill**

	<b>2015</b>	<b>2016</b>
Liquid ratio	3.11:1	0.93:1
Return on equity	14.8%	14.9%

- (b) The trend shows that *Papermill* may have difficulty paying its immediate debts as they fall due because there is only 93 cents of liquid assets to pay each dollar of liquid liability, which is a fall of \$2.18. The preparation for the launch has seen the build-up of inventory, which has been paid for by cash that the business had (the bank balance has fallen by \$30 000), which has reduced the liquid assets. Anne should not be too concerned as the inventory is likely to be sold next year through the online store – which will bring in cash, which will increase liquid assets and enable her to pay her liquid liabilities (or other valid reason saying that inventory has gone up but is not a liquid asset, so the liquid ratio is down; it is a large proportion of current assets).
- (c) The 14.8% return means that for every dollar Anne has invested in *Papermill* she is earning 14.8 cents of profit. The online store will improve the return in 2017 because it gives her a bigger market which will hopefully see sales increase and therefore more profit generated. Because Anne has not had to increase her capital in the business to fund this expansion, she should see her profit increase at a rate faster than any equity growth, resulting in a higher return. (Any increase in profit with drawings remaining similar should see a higher return.)

<b>Question THREE</b>	<b>Evidence</b>
<b>Not Achieved</b>	<p><b>N0</b> = No response; no relevant evidence  <b>N1</b> = Gives one description</p> <ul style="list-style-type: none"> <li>• Calculates analysis measures correctly.</li> <li>• Describes the liquid ratio (ability to pay).</li> <li>• Describes how the preparation has affected the trend in liquid ratio.</li> <li>• Describes meaning of return on equity (amount of profit generated by each \$ of [average] equity or % return of average capital invested).</li> <li>• Describes how the trend on the return will improve in 2017.</li> </ul> <p><b>N2</b> TWO of the above</p>
<b>Achievement</b>	<p><b>A3</b> THREE of the above  <b>A4</b> FOUR of the above</p>
<b>Merit</b>	<ul style="list-style-type: none"> <li>• Explains what the trend in Papermill's liquid ratio means <b>AND</b> how preparation for the online store has influenced the trend  <b>OR</b>  why Anne should not be concerned about the trend.</li> <li>• Explains the meaning of the return on equity and how the online store will increase sales and therefore profit because of bigger market.</li> </ul> <p><b>M5</b> ONE of the above  <b>M6</b> BOTH of the above</p>

<b>Excellence</b>	<ul style="list-style-type: none"> <li>• Justifies Papermill’s ability to pay immediate debts using relevant information from resources (must mention that the bank is a liquid asset, and they’re using a liquid asset [bank] for purchases). Figures are needed.</li> <li>• Justifies how the opening of the online store will affect the return on equity using relevant information from the resources. Mentions that expansion was not funded through capital, but via cash</li> </ul> <p><b>OR</b></p> <p>A bigger market can be implied. E.g. more accessible / different type of customers, with a link to increased sales.</p> <p><b>E7</b> ONE of the above  <b>E8</b> BOTH of the above</p>
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**Cut scores**

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0 – 6	7 – 12	13 – 18	19 – 24