

Assessment Schedule – 2019

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

Evidence

Question ONE

- (a) If Nami employs part-time students she can pay them minimum wage / student wage / lower wage than overtime for her permanent staff costs her, thus reducing her sales wages and distribution costs, reducing her distribution cost percentage.

The lower distribution costs, other things equal, will increase *Surfeze's* profit for the year.

This will improve the profitability of *Surfeze*.

A different approach could be taken: for example because students are working, their friends might come in and buy more of their surfgear from *Surfeze*, increasing sales and helping reduce distribution cost percentage and increase profit.

- (b) The inventory turnover of 2.5 times per year means *Surfeze* on average sells all its inventory 2 ½ times per year or every 4.8 / 5 months.

The inventory turnover is lower than the national average of 4 times because nearly all of *Surfeze's* sales will be in summer when there are up to 25 000 people in Whangamata, compared to the rest of the year when only the (3 500) locals are in town / *Surfeze* will have a high / similar to industry average inventory turnover in summer when lots (up to 25 000) of visitors are in town but a much lower turnover in winter (when only locals are around) so *Surfeze's* overall average is lower.

The 200% mark-up percentage means *Surfeze* makes a lot of (gross) profit on the cost of the goods / from sales of goods, for example \$200 profit on a surf top that cost \$100. This means there is more gross profit to cover expenses and earn a profit for the year, improving *Surfeze's* profitability.

Because the inventory turnover is low(er), more profit (200% mark-up compared to industry average of 150% mark-up) is needed on each item sold to cover expenses for the whole year to maintain profitability.

N1	N2	A3	A4	M5	M6	E7	E8
Describes ONE analysis measure with no / minimal reference to context.	Describes TWO analysis measures with no / minimal reference to context.	Describes, with some reference to context, THREE of <ul style="list-style-type: none"> • distribution cost % • profit for the year • inventory turnover • mark-up %. 	Describes, with some reference to context, FOUR of: <ul style="list-style-type: none"> • distribution cost % • profit for the year • inventory turnover • mark-up %. 	Explains, in context, THREE of: <ul style="list-style-type: none"> • distribution cost % • profit for the year • reason for inventory turnover • mark-up %. 	Explains, in context, FOUR of: <ul style="list-style-type: none"> • distribution cost % • profit for the year • reason for inventory turnover • mark-up %. 	Justifies, in context, the impact on profitability ONE of: <ul style="list-style-type: none"> • shows the link between distribution cost % and profit for the year • the inventory turnover and mark-up analysis measures. 	Justifies, in context, with relevant links, the impact on profitability of: <ul style="list-style-type: none"> • the link between distribution cost % and profit for the year • the inventory turnover and mark-up analysis measures.

N0 = No response; no relevant evidence.

Question TWO

Bella Marine's debtors / accounts receivable are taking, on average, 30 days to pay their (credit) accounts in 2019. *Bella Marine's* age of accounts receivable is well above industry average because (ONE reason only required) for example:

- The one-off out-of-town customers could easily forget to pay / not worry about paying because they won't use *Bella Marine* again / increasing *Bella Marine's* bad debts / age of accounts receivable turnover
- Bella lets everyone have credit so she does not check credit history or creditworthiness of customers / she gives credit to customers with poor credit ratings so a number of customers do not pay on time, increasing the age of accounts receivable.
- Bella may not be managing her debtors by sending regular statements or following up late payers. This would make it easier for customers to get behind, increasing the age of accounts receivable.

Bella's liquid ratio will be increasing with more accounts receivable rather than more cash at the bank.

Because her debtors are not paying on time, she is not turning their credit accounts into cash fast enough to pay her creditors on time.

If Bella offers a discount for prompt payment she won't receive all of the cash she is owed and this means she will have less cash available to pay her creditors / one-off out-of-town customers may not be concerned with a discount to encourage payment if they are not worried about paying, in which case the discount won't help Bella get the money from these customers to have the cash to pay her creditors.

The accountant's recommendation will mean Bella receives cash immediately for all jobs that are one-off or from customers from out of town. These customers are the ones more likely to not pay their credit accounts as they don't need to come back to Bella for more work on their boats (like local customers would). This cash will be available immediately to pay creditors, so Bella can pay them on time. If she only gives credit to creditworthy local customers it is more likely they will pay as they want to continue using Bella's services / it is easier for Bella to chase them up for payment if they are late / the late charge for overdue accounts will encourage them to pay on time. Bella will then have the cash she needs to pay her creditors on time.

N1	N2	A3	A4	M5	M6	E7	E8
Gives ONE description with no / minimal reference to context.	Gives TWO descriptions with no / minimal reference to context.	Describes, with some reference to context, TWO of: <ul style="list-style-type: none"> • age of accounts receivable • liquid ratio or the difficulty paying creditors • discount for prompt payment • accountant's recommendation. 	Describes, with some reference to context, THREE of:	Explains, in context, TWO of: <ul style="list-style-type: none"> • age of accounts receivable reason • age of accounts receivable link to liquid ratio • discount for prompt payment • accountant's recommendation linked to age of accounts receivable OR ability to pay creditors. 	Explains, in context, THREE of:	Justifies, in context, TWO of: <ul style="list-style-type: none"> • link between the accountant's recommendation, age of accounts receivable, and ability to pay creditors • link between accounts receivable turnover, liquid ratio, and inability to pay creditors • link between prompt payment discount and inability to pay creditors. 	Justifies, in context: <ul style="list-style-type: none"> • link between the accountant's recommendation, age of accounts receivable and ability to pay creditors • link between accounts receivable turnover, liquid ratio and inability to pay creditors • link between prompt payment discount and inability to pay creditors.

N0 = No response; no relevant evidence.

Question THREE

The trend in the cash flow statement indicates that *Whangawave* will have an increase in net cash from \$8 000 to \$25 000. This is likely because the jet-ski hire will bring in more customers and cash (budgeted to increase to \$255 000), outweighing the additional costs / expenses (budgeted to increase to \$230 000).

The bank manager approved the loan because:

- (budgeted) increase in cash flow indicates ability to make loan repayments
- *Whangawave* has good security. The equity ratio 0.7:1 means Ken has financed 70% of the assets / Ken has financed more than half the assets.

The return on total assets of 18% means that *Whangawave* generates 18c profit for every \$1 of average total assets / every \$1 of average total assets generates 18c of profit.

Ken should not be concerned about the decreasing trend in the budgeted return on total assets, as, for example:

- initial / one-off set up costs for jet-ski hire reduces the profit, reducing return on total assets
- the jet-skis were only purchased in August and a full year’s hire fees are not available to cover additional one-off setup costs / ongoing additional costs, reducing profit and the return on total assets
- the purchase of four jet-skis / storage shed increases total assets, reducing the return on total assets
- because some of the expenses reducing the profit in 2020 are one-off, profit will increase again in 2021 when these don’t have to be paid again e.g. staff training, obtaining resource consent.

Note candidates are not expected to provide more than one explanation (Merit) or justification (Excellence) for the budgeted trend in return on total assets.

N1	N2	A3	A4	M5	M6	E7	E8
Describes ONE analysis measure with no / minimal reference to context.	Describes TWO analysis measures with no / minimal reference to context.	Describes, with some reference to context, TWO of: <ul style="list-style-type: none"> • cash flow • equity ratio • return on total assets. 	Describes, with some reference to context, THREE of <ul style="list-style-type: none"> • cash flow • equity ratio • return on total assets. 	Explains, in context, TWO of: <ul style="list-style-type: none"> • cash flow • equity ratio • trend on return on total assets. 	Explains, in context, THREE of: <ul style="list-style-type: none"> • cash flow • equity ratio • trend on return on total assets. 	Justifies, in context, TWO of: <ul style="list-style-type: none"> • cash flow and the bank manager’s decision • equity ratio and the bank manager’s decision • reason for lack of concern regarding the trend in return on total assets. 	Justifies, in context: <ul style="list-style-type: none"> • cash flow and the bank manager’s decision • equity ratio and the bank manager’s decision • reason for lack of concern regarding the trend in return on total assets.

N0 = No response; no relevant evidence.

Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0 – 8	9 – 14	15 – 19	20 – 24