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91408

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NZQA

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Level 3 Accounting, 2015

91408 Demonstrate understanding of management accounting to inform decision-making

2.00 p.m. Monday 30 November 2015
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of management accounting to inform decision-making.	Demonstrate in-depth understanding of management accounting to inform decision-making.	Demonstrate comprehensive understanding of management accounting to inform decision-making.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

Pull out Resource Booklet 91408R from the centre of this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–8 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

Excellence

TOTAL 20

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Refer to **Resource Booklet 91408R** to answer all questions.

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Ignore GST, and provide detailed and labelled workings for all your calculations, which will be marked.

QUESTION ONE

(a) Calculate the total number of *Hexton Bed and Breakfast (HBB)* unit rentals required per year to break-even if selling price is \$100 per unit per night, variable costs are \$35 per unit per night, and fixed costs are \$43 550 per year.

Break-even $= \frac{FC}{CM}$

$= \frac{43{,}550}{65}$

$= 670$

Break-even 670 (total number of unit rentals per year)

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(b) Explain what the break-even calculation means for *HBB*.

The break-even of 670 (total number of unit rentals per year) means for HBB, that the total revenue equals total costs, this means that at 670 unit rentals per year 'HBB' is not operating at either a profit or loss, but all costs are covered.

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(c) Bob and Wendy's goal is to earn as much per year from *HBB* as they did from their jobs in Auckland (i.e. make a profit of \$105 170). Calculate how many times on average *HBB* would have to rent out one unit to achieve this.

$\frac{FC}{CM}$

$\frac{\text{Fixed Cost + Profit target}}{\text{Contribution margin}} \quad \frac{43{,}550 + 105{,}170}{65}$

$= 2288 \div 8$

$= 286$

Target rental, on average,
for **one unit** per year to achieve a profit of \$105 170 286 times

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(d) Justify whether this target rental is achievable for *HBB*.

The target rental of ~~___~~ 286 times on avarage for one unit per year to achive a profit of $105,170 is ~~___~~ achievable as the maximum amount of time ~~an~~ rental ~~rental~~ can be rented out is 365 times per year. This target is well under the ~~___~~ maximum level, and hence room for fluctuations in rentals during least popular ~~rental~~ tourist months (March, April), where by nature the rental levels for a unit will decrease.

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(e) Explain why the calculation of fixed and variable costs is vital to the success of *HBB*. In your answer, include:

- what their fixed and variable costs are
- the risk(s) Bob and Wendy face if *HBB*'s revenue does not cover the fixed costs.

The calculation of fixed and variable cost is vital to the success of HBB, ~~this~~ as the fixed costs of HBB are costs which remain constant over the relevant range output (irrespective of production). Variable Costs for HBB are the costs that are directly linked to the level of production (costs which will increase as production increases). A major fixed cost for HBB is the mortgage ($150,000) for the property. This fixed costs ~~per month~~ is ($1005 per month). A variable cost for HBB is the cost of Breakfast per person a night ($10) $20 since two people per unit. The rist Bob and wendy face if HBB's revenue does not cover the fixed costs is that they will not be able achive the goal of making a profit of $105,170 per year. Hence the business of HBB will be considerd unsuccessful ~~failure~~, and they may be forced to sell the home (mortgage sale) due to the inability to pay mortage principle/interest as a result of insufficient ~~___~~ revenue and lack of income.

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QUESTION TWO

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(a) Complete the cash budget below for *Hexton Bed and Breakfast (HBB)*, showing the receipts and payments for December 2014 (31 days), January 2015 (31 days), and February 2015 (28 days).

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Hexton Bed and Breakfast
Cash Budget

	December	January	February	
Receipts				
Cash	22,320	22,320	7560	CVC
Accounts receivable (tour operators)	-	2232	2480	CC
TOTAL RECEIPTS	22,320	24,552	10,040	
Less payments				
Mortgage principal and interest	1005	1005	1005	V
Insurance	250	250	250	V
Other operating expenses	429	429	429	V
Vehicle expenses	434	434	434	CCC
Repairs and maintenance	300	300	300	C
Drawings	1000	1000	1000	
Breakfast costs	4,960	4,960	1,680	CVC
Cleaning costs	3720	3720	1,260	CVC
TOTAL PAYMENTS	12,098	12,098	6,358	
Surplus ~~(deficit)~~ of cash	10,222	12,454	3682	
Opening bank balance	2000	12,222	24,676	
Closing bank balance	12,222	24,676	28,358	CP

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Bob and Wendy have been informed that March and April are the least popular months of the year for tourists visiting Queenstown.

(b) Explain the reasons why Bob and Wendy's bank manager told them to prepare a detailed cash budget for the months of December, January, and February. In your answer, include:

- the purpose of preparing the cash budget, supported by information from your cash budget on page 4
- a business decision that Bob and Wendy could make from the cash budget to assist the *HBB* cash position for the months of March and April.

The purpose of preparing the cash budget for Hexton Bed and Breakfast is to ~~to~~ show estimated receipts and Payments for the months December, January and February. These estimates allow Bob and Wendy to identify cash-flow fluctuations ~~and [illegible]~~, which helps ~~to~~ Wendy and Bob make financial decisions. P

This is the main reason on why Bob and Wendy's bank manager asked them to prepare a cash Budget for the months (December, January and February). As Wendy and Bob are first time business owners a cash Budget ~~which~~ is handy for Bob and Wendy as they get an idea on how the cash within the business operates, ~~as they have~~ A business decision that Bob and Wendy could make from the Cash Budget to assist the HBB cash position for the months of March and April is that they could reduce the cost price of a unit from ($100) per night and Breakfast to ($90). ~~for the Months March and~~ At these least popular months lowering cost means people are more encouraged to travel and stay at HBB, while this decrease will ~~increase~~ decrease the Bank Balance due to the decrease in receipts, HBB will still have a positive Bank balance and still have a surplus of cash. Ae

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QUESTION THREE

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Recommend whether or not Bob and Wendy should sell up in Auckland and move to Roxburgh to start their own business, *Hexton Bed and Breakfast (HBB)*.

In your answer, you should provide detailed and justified reasons for your recommendation. This should consist of:

- an introduction that includes a clear statement of your recommendation
- a main body consisting of reasons explaining your recommendation
- a justified conclusion.

Your answer should expand on the resource information, and must include:

- relevant calculations from Question One and Question Two, and any other calculations you consider important to help Bob and Wendy understand the key issues in making this decision
- both financial and non-financial information that shows understanding of the difference and importance of these two terms in decision-making.

I Recommend Bob and Wendy to sell up their house in Auckland and move to Roxburgh to start their own business, Hexton Bed and Breakfast (HBB) as for a various financial and non-financial information. R

The capital that Wendy and Bob will receive from ~~the~~ selling the Auckland home will allow them to purchase and renovate the property in Roxburgh and only have a mortgage of $(150,000) which will be significantly lower than the mortage in lower, hence ~~making it~~ allowing more financial freedom for Wendy and Bob due to lower monthly mortgage ~~and~~ principle and interest payments. Also from looking at the cash Budget for December (first month of operation), January, February, HBB's closing bank balance is extreamly healthy with it increasing in each month, while this may slighty decrease in ~~the~~ harsh conditions (least FL

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popular months March, April), there will still be a significant amount of money left for Bob and Wendy to operate with. ~~[illegible]~~ This will mean they will have enough capital to expand their business (Brand - Advertising, building more units - size). A non financial factor is that both Bob and Wendy will have the ~~[illegible]~~ right skillset to make it a sucessful business. ~~[illegible] opening~~ With Bob being a builder and wendy being a chef they are able to complement each other - Bob is able to maintain the business (house) with his building skillset by doing renovations/maintence to the home. Which is important ~~due to~~ as the high ~~amount~~ volume of people staying at the units will take a toll as the years go on. Wendy being a chef will mean that she will be able to have an influence on the breakfast, that guests will consume. Also the location of the home in Roxburgh is significant as it is only a 90 minute drive from Queenstown which is a popular tourist destination in New Zealand (700,000 tourists visit each year). ~~As a resu~~ This means that 'HBB' will be a option for incoming tourists, it is up to Bob and Wendy to make 'HBB' an attraction for these people (Renovations/ advertising).

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E7

→ next page.

Extra space if required.
Write the question number(s) if applicable.

QUESTION NUMBER

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As a result of these financial and non financial information I reccommend Bob and Wendy to sell up in Auckland move to Roxburgh to start ther own business (HBB) as it will alow them to escape the 'rat race' and place them in a strong financial position.

91408

Excellence exemplar for AS 91408 2015			Total score	20
Q	**Grade score**	**Annotation**		
1	**E8**	a) Correct calculation b) Concept is explained in context c) Correct calculation to ensure E7 and E8 d) There is reference to the relevant range and the student has linked information to the resource. e) Both fixed and variable costs are explained in context and the 'risk' to the owners is outlined.		
2	**M5**	a) 19/19 calculations correct b) A purpose of the budget is clearly explained but although the example given is good the link to the budget is confusing.		
3	**E7**	A recommendation is stated. Both financial and non-financial examples are provided with relevant supporting evidence to enable informed decision making. The answer is in a report format with a high level of literacy, paragraphs and a conclusion.		