

No part of the candidate evidence in this exemplar material may be presented in an external assessment for the purpose of gaining credits towards an NCEA qualification.

3

91408



914080



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

SUPERVISOR'S USE ONLY

Level 3 Accounting, 2016

91408 Demonstrate understanding of management accounting to inform decision-making

2.00 p.m. Friday 18 November 2016
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.

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

You should attempt ALL the questions in 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 2–14 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

22

ASSESSOR'S USE ONLY

Notes:

- Ignore GST for all calculations.
- For any required calculations, you must provide detailed and labelled workings. Labelled workings may be assessed.
- Refer to the information provided in **Resource Booklet 91408R** to answer all questions.

QUESTION ONE

- (a) Define the cost concept "relevant range", and explain a factor that will limit the relevant range for *Te Kete Mātauranga Crafts (TKMC)*.

Note: You are NOT required to calculate relevant range.

Relevant range is the range at which at least one variable is fixed and without ~~changing~~ ^{increasing} this limits the amount of production within a company. For TKMC a factor that limits their relevant range is the flax as they are only able to access flax from the council region limiting the amount of baskets that they can produce. Therefore TKMC has a relevant range the size of the regional area that they are allowed to gather the flax from.

- (b) If selling price is \$70 per unit per kete, variable costs are \$35 per kete, and fixed costs are \$11 340 per annum, calculate the contribution margin for each kete.

$$cm = SP - VC$$

$$\$70 - \$35 = cm = \$35$$

Contribution margin: \$35 (per kete)

- (c) Awhina and Pita want to produce a profit of \$14 000 in TKMC's first year of operation. Calculate how many kete they would need to sell to achieve this profit target.

$$\frac{\text{profit} + fc}{cm (\$35)} \quad \frac{14,000 + 11,340}{35}$$

Targeted kete production to achieve profit of \$14 000: 724 baskets

- (d) (i) Calculate the margin of safety in terms of the number of kete assuming that TKMC has achieved the targeted kete production from (c) on the previous page.

ASSESSOR'S
USE ONLY

$$BE = \frac{FC}{cm} = \frac{11340}{35} = 324$$

724 baskets

324

Margin of safety: 400 number of kete

- (ii) Explain the concept of "margin of safety", and apply this to Awhina and Pita limiting their student loans.

The margin of safety in baskets is the number of baskets that TKMC can sell before they hit breakeven where they are covering their costs. To achieve the \$14,000 worth of profit Awhina and Pita will need to produce 724 baskets, to breakeven they will need to produce 324 baskets. This means that TKMC has a margin of safety of 400 baskets and therefore TKMC could sell 400 less than expected and still not lose money on their baskets. 400 baskets is a large margin of safety and should show Awhina and Pita that they could ~~drop~~ drop sales of baskets by over half and still be making a profit and be able to pay back their student loan. Understanding the margin of safety will ensure that Awhina and Pita know how much they can drop sales of baskets by and still continue to pay back their student loans and that if 724 baskets is not met then they know that they would have to drop to ^{below} 324 baskets before they start making a loss.

- (e) Justify the importance to Awhina and Pita of preparing and regularly updating a production budget for TKMC.

The production budget will show Awhina and Pita the running of TKMC and the cost that are associated as well as how much volume that they think they will sell. As they will start making the baskets in the month before this means that they will need to ensure that they have enough to cover the cost associated with the future month sales as the costs may occur the month of production. It is also a way to ensure that they have the lowest cost of production in creating the baskets with to return a greater profit. The production budget can also be compared with the actual budget and see if certain areas are costing more than budgeted to try and minimise loss and maximise profit. Therefore, Awhina and Pita should prepare and regularly update a production budget for TKMC.

E
J

8

QUESTION TWO

- (a) Complete the Cash Budget below for TKMC showing the receipts and payments for October, November, and December 2016.

TKMC Cash Budget

	October	November	December
Receipts			
Grant from iwi	2000	0	0
Cash sales	700	2450	4200
Cash from accounts receivable	0	630	1260
TOTAL RECEIPTS	2700	3080	5460
Less payments			
Cellphone costs	55	55	55
Other fixed operating expenses	275	275	275
Storage rental to marae committee	100	100	100
Vehicle expenses	140	140	140
Vehicle loan	250	250	250
Wages to weavers	600	1650	3000
Other variable costs	100	275	500
TOTAL PAYMENTS	1520	2745	4320
Surplus (deficit) of cash	1180	335	1140
Opening bank balance	250	1430	1765
Closing bank balance and available to cover university costs	1430	1765	2905

- (b) Justify whether the Cash Budget you completed on page 6 indicates that TKMC will help Awhina and Pita limit their student loan debt.

ASSESSOR'S
USE ONLY

Include in your answer:

- specific examples from the cash budget to support your explanation as to whether TKMC will help to limit the student loan debt
- an explanation of why Awhina and Pita need to understand that TKMC's cash budget is estimating monthly kete sales.

The cash budget shows the estimated receipts from the basket sales and the estimated payments to produce a surplus or deficit of cash for that month. TKMC has estimated a closing bank balance that is positive in October, November, December. This means that TKMC is predicted to return a profit for Awhina and Pita that will help pay back their student loan. In October the closing bank balance and funds available to cover university costs is \$1430 due to the \$1180 surplus of cash and the \$250 bank balance. In November the funds available are \$1765 and December \$2905. These figures show that the total closing balance is an increase to where \$2905 could be used towards Awhina and Pita's university in just 3 months. The increasing trend in the cash budget shows that there is likely to be more incoming funds available from TKMC for Awhina and Pita to use for their university after they have paid all of TKMC's expenses. Awhina and Pita need to understand that these are estimates for TKMC and that this is based on predicted future sales of kete and need to take into consideration that they might not make these sales and that they are just predictions. But the figures are still useful in predicting how much that TKMC can return them for their university.

6

The following Planning Template is provided for you to use to develop ideas for your report.

ASSESSOR'S
USE ONLY

Recommendation: TKMC should not expand to a mobile friendly website.

Financial considerations	Non-financial considerations
<ul style="list-style-type: none"> increased VC $\therefore \uparrow$ CM $\therefore \uparrow$ BE over 100 more baskets need to be sold to achieve \$14000 profit 724 \rightarrow 857 they would have paid back loan which would in return \downarrow FC $\therefore \downarrow$ BE CM falls from 35 \rightarrow 30 they have paid back S.L. So the \therefore the profit is harder to keep 	<ul style="list-style-type: none"> They will have more time to study at university will not have to train new staff and can leave it in the capable hands of the experienced whānau. Preserves the flow as they won't use as much. juggling study + business hard

Awhina and Pita should not expand TKMC and not set up the website due to both financial and non-financial information.

Starting with the financial considerations the website will increase TKMC's variable costs from \$35 to \$40 each basket and in return create a smaller contribution margin limiting the amount per basket that can cover fixed costs and return a profit for Awhina and Pita. This ~~for~~ would then increase the breakeven (after also increasing the fixed costs from \$11340 to \$11700) to 390 baskets from 324 increasing the difficulty of making a profit in TKMC

More answer space is available on the next page

in order to achieve the \$14,000 profit like they predict in year one TKMC would have to sell over 100 more baskets from 724 year 1 to 857 year 2 to achieve the \$14,000 worth of profit. If TKMC continues without the website then the fixed costs will decrease as they will have paid back the loan making it easier to reach a profit. The new BE for year 2 would be 234 baskets compared to 324 baskets of year 1 which means that if they sell the same amount of basket as they did in year 1 to achieve the \$14,000 profit (724) they would make \$17,000 profit without the expansion. They have also achieved what they set out to do with TKMC and have paid back their student loan so all the profit coming into TKMC would be Awhina's and Pita's.

The Non-financial considerations include that without the expansion Awhina and Pita can spend more time studying at university and getting better grades as they won't have any added stress that already comes with studying and having a business. It will also minimise the chance of having to train new staff which would take up extra time for Awhina and Pita and the new staff may not be Whanau with the knowledge of the rest and may cause an increase in faulty baskets that would increase write-offs/returns or unhappy customers. Expanding will cause

Extra space if required.

Write the question number(s) if applicable.

ASSESSOR'S
USE ONLYQUESTION
NUMBER

3) the usage of more flax within the region which could result in a faster usage of the flax and it may be harder to maintain the flax in the area. Increased production of the baskets could cause the use of flax that isn't ready yet and overproduction harming the environment.

NFS

Awhina and Pita need to take into account both financial and non-financial information as they need to look after themselves and the environment rather than just looking at the financial information. University was the core objective for the twins and the added pressure of a business is hard enough without expanding it.

Therefore using both non-financial and financial information which are both equally as important the recommendation is that Awhina and Pita do not expand their business in year two.

Excellence exemplar 2016

Subject:	ACCOUNTING	Standard:	91408	Total score:	22
Q	Grade score	Annotation			
1	8	The candidate defined relevant range and explained a factor that limited relevant range. All three calculations were correct. Margin of safety was explained and linked to the limiting of the student loan. The production budget is explained and is linked to volume of sales and planning to ensure efficiency in the future.			
2	6	17 correct entries in the cash budget and the figures are correct in the final closing bank balance. A specific example given to limiting the student loan debt and that estimated sales figures may vary impacting on the loan for university.			
3	8	A recommendation was made in context. Linked three examples were given to show an understanding of financial information and non-financial information. The candidate used a report format with a high level of literacy.			