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91408



914080



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MANA TOHU MĀTAURANGA O AOTEAROA

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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.

Achievement

TOTAL

10

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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 refers to the amount of production possible for Te Kete Mātauranga in terms of their resources and current financial situation. A factor that will limit the relevant range for TKMC is that both Awhina and Pita will be attending university, therefore may not have enough money to fund extra production even though they are receiving free flax from the local city council.

- (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.

$$\begin{array}{r} \text{selling price} - \text{variable costs} \\ 70 \quad - \quad 35 \quad = \quad 35 \end{array}$$

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.

$$\begin{array}{l} \text{(PT)} \\ 14000 \div \frac{70(\text{SP})}{35(\text{VC})} = 200 \\ 200 \times 35 = 7000 \end{array}$$

PT = profit target
SP = selling price
VC = variable costs

Targeted kete production to achieve profit of \$14 000: 7000

- (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.

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$$\begin{aligned} \frac{\text{variable costs}}{\text{estimated sales}} &= \frac{33}{7000} \\ &= 5\text{E}-03 \times \frac{100}{1} \\ &= 0.5 \end{aligned}$$

Margin of safety: 0.5 number of kete

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

Margin of safety refers to the amount of money Awhina and Pita can spend on their business (TKMC) before they are unable to repay back loans or pay their already existing payments that are due (eg. storage rental, vehicle loan repayment). Awhina and Pita limiting their student loans refers back to the margin of safety because both of them will have these loans to think of and to repay, the aim of their business is to help them do this however they cannot use TKMC to help repay their loans unless they are running their business smoothly and considering all extra costs and expenses they will need to be on top of. //

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

It is important for Awhina and Pita to prepare and regularly update a production budget for TKMC because this will allow them to keep track of the amount of Kete's they are producing within their business. If production is at a higher output than sales, then an increase in sales will be needed. They could look at lowering the price for a Kete in order to ensure production and sales stay at a similar scale. If production is too high they will be losing money due to resources not being replaced with money earned from sales. A production budget will allow Awhina and Pita to confidently set aside a lump sum of money for their production within TKMC, this will mean no resources are being wasted and sales will remain constant. //

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	1330	3710	1680
Cash from accounts receivable	0	0	1680
TOTAL RECEIPTS	3330	3710	1680 4320
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 4320
Surplus (deficit) of cash	1810	965	(2640)
Opening bank balance	250	1560	(595)
Closing bank balance and available to cover university costs	1560	(595)	(2045)

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

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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.

I believe that the cash budget will help awhina and Pita limit their student loan debt. I think this because everything that needs to be paid for TKMC is in that budget and lays out for Awhina and Pita the amount of money they need to set aside each month in order to keep on top of their payments. TKMC's cash budget is estimating monthly sales as you can see from the figures in "cash sales" and "wages to weavers", both of these figures and accounts show an increase for TKMC in terms of sales and ~~was~~ you are able to see this as the more kete's made and sold, the more money paid to weavers and the more money earned for TKMC. //

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

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Recommendation: Yes, I recommend they do expand via a mobile-friendly website.	
Financial considerations	Non-financial considerations
<ul style="list-style-type: none"> - higher variable costs - higher mobile costs 	<ul style="list-style-type: none"> - more time for university - production increases - sales increase

I recommend that Awhina^{and Pita} should expand TKMC, I believe that by setting up a mobile friendly website for their customers will allow TKMC to ~~be~~ make more profit whilst also being able to attend university. Having an online website for their business is going to appeal to not only their current customers but it will allow them to expand and find other customers within their own age group. The higher mobile costs will affect their business but will not be a very big issue if the website is a success. Higher variable costs will

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More answer space is available on the next page

impact customers but shouldn't be too much of an adjustment if the website is a success. Another thing to consider is if they need to hire and train more staff this could put a strain on Awhina and Pita's university lives, however it would benefit the business greatly if they were able to employ more weavers for TKMC, this would overall increase their output for production, in turn making sales go up, therefore increasing overall profit for TKMC. If the website was to be a success then Awhina and Pita would both be able to pay a little more off of their existing student loans. They will also be able to store ^{more} Kete's in the shed on the marae as it is waiting for either sale online or at a market for example. I believe that TKMC introducing an online aspect to their business will overall benefit them in the long run and mean that they will be able to pay for not only university but also the existing costs of their business and so on.

Achievement exemplar 2016

Subject:	ACCOUNTING	Standard:	91408	Total score:	10
Q	Grade score	Annotation			
1	3	The candidate described relevant range but did not correctly apply a factor. One of the three calculations was correct. Margin of safety was not described or explained. Some aspects of a production budget purpose was applied.			
2	3	12 correct entries in the cash budget. There was no specific example given to limiting the student loan debt.			
3	4	A recommendation was made in context. Two examples were given to show an understanding of financial information.			