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91408



914080



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SUPERVISOR'S USE ONLY

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.

Merit

TOTAL

16

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

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.

$$\text{Contribution Margin} = \text{Selling Price} - \text{Variable Costs} \\ = 100 - 35 = 65$$

$$\text{Break-even} = \frac{\text{Fixed Costs}}{\text{Contribution Margin}} = \frac{43,550}{65} = 670$$

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

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

HBB will need to sell 670 nights at ~~one~~ their bed and breakfast to break-even for the year. This means they would have no loss or profit.

- (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.

$$\text{Profit Goal} = \frac{\text{Target Profit} + \text{Fixed Costs}}{\text{Contribution Margin}} = \frac{105,170 + 43,550}{65} \\ = 2288$$

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

2288

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

As there are 365 days a year and 8 units the maximum possible is 2,920 if 8 units are always rented out. As 2,288 is below this it is achievable, for HBB. The relevant range for HBB is ~~2,288~~ 0 - 2,920. This means that between 0 and 2,920 units HBB's fixed costs will remain the same. If they wish to increase the relevant range then fixed cost must be increased. //

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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 fixed costs are costs which remain constant for HBB no matter their sales, as long as they stay within their relevant range of 0 - 2,920 units. Variable costs are costs which change depending on the number of units sold. If no units are sold variable costs are 0 for HBB. If the revenue does not cover fixed costs there is no way Bob and Wendy can break-even. This would be a very bad situation for Bob and Wendy as they rely on HBB for a salary. Also, HBB must pay their fixed costs or they may need a loan or bank overdraft. There would both incur interest and lower their credit rating. //

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QUESTION TWO

- (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).

Hexton Bed and Breakfast Cash Budget

	December	January	February
Receipts			
Cash	22,320	22,320	7,560
Accounts receivable (tour operators)		2,232	2,480
TOTAL RECEIPTS	22,320	24,552	10,040
Less payments			
Mortgage principal and interest	1,005	1,005	1,005
Insurance	250	250	250
Other operating expenses	429	429	429
Vehicle expenses	217	217	217
Repairs and maintenance	300	300	300
Drawings	1000	1000	1000
Breakfast costs	4,960	4,960	1,680
Cleaning costs	3,720	3,720	1,260
TOTAL PAYMENTS	11,881	11,881	6,141
Surplus (deficit) of cash	10,439	12,671	3,899
Opening bank balance	2000	12,439	25,110
Closing bank balance	12,439	25,110	\$ 29,009

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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.

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USE ONLY

- (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.

A cash budget for these three months means Bob and Wendy can see what they should expect to happen and take action if it does not please them.

The purpose of a cash budget is to show the expected cash position so Bob and Wendy can see and plan for the future. As these three months have been very successful for Bob and Wendy, a closing bank balance of \$29,009, they may choose to put some money in a term deposit so the interest can help them through March and April. This interest would help offset poor sales for these months.

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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.

Bob and Wendy should sell their house in Auckland and move to Roxburgh to start HBB.

As Bob is a builder and Wendy is a chef, they have good jobs which will help them run a bed and breakfast. Wendy can cook breakfast while Bob can ensure maintenance costs are low by fixing any problems himself. Even though they will need to renovate their new mortgage of \$150,000 would be lower than their current mortgage.

The Cash Budget shows Bob and Wendy have a \$27,008 surplus over their first 3 months. Starting a business is the hardest part but if they have a 3 month surplus of \$27,008 every 3 months, they make \$108,032 a year. This is \$2,862 more than they are currently earning per year.

Bob and Wendy may also enjoy living in a small town of just 600 compared to a city of almost 2 million. They may find they enjoy the quiet.

As March and April are both quiet months there will likely be a few weeks no-one is staying at HBB.

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Bob and Wendy could go on holiday during this time. Queenstown is only a 90 minute drive from Roxburgh and they would be able to visit there more often ~~than~~ than if they lived in Auckland.

~~Queenstown~~ The region is becoming increasingly popular so HBB will be able to grow.

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It will be a new experience for both Bob and Wendy and they will likely enjoy the challenge.

There is plenty to do in the region so Bob and Wendy won't get bored.

The property is 1.573 hectares so it is very large. There appears to be a demand for a bed and breakfast in Roxburgh as Bob and Wendy were able to be fully booked out in December and January despite these months being their first two months in operation.

These are many reasons Bob and Wendy should move to Roxburgh and start HBB. They will enjoy the change in lifestyle and the business appears to be financially stable straight away.

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Merit exemplar for AS 91408 2015			Total score	16
Q	Grade score	Annotation		
1	M5	a) Correct calculation b) Concept explained in context c) Correct calculation (but not for one unit) d) The student has outlined the relevant range and identified that the output is achievable within this range. e) Both fixed and variable costs are described with no examples given and an outcome for the 'risk' is not provided.		
2	E7	a) 16/19 correct calculations b) A purpose is described which discusses decision making for the future. The example of term deposit to earn interest was well explained in terms of its link to the budget.		
3	A4	A recommendation was stated. The student has provided a lot of financial and non-financial information ideas but they have not been applied to help the owners make a decision. For example, stating the 'mortgage will be lower' could be better explained in that this will lead to a shorter repayment time frame etc.		