

91408R



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

## Level 3 Accounting, 2013

### 91408 Demonstrate understanding of management accounting to inform decision-making

9.30 am Thursday 21 November 2013  
Credits: Four

#### RESOURCE BOOKLET

Refer to this booklet to answer the questions for Accounting 91408.

Check that this booklet has pages 2–3 in the correct order and that none of these pages is blank.

**YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.**

## RESOURCE ONE

Sarah is the sole proprietor of a business called *Sole Optimus Olives (SOO)*.

She owns land, which is planted with 300 olive trees producing an estimated 60 kg of olives per tree per year. Olives are picked and placed in a pressing machine to extract olive oil, which is used in food preparation. *SOO's* sales per year is dependent on the number of litres of olive oil produced from the 18 000 kg of olives that are harvested (picked). Olive trees can have multiple harvests, but Sarah picks her olives **once a year** when a majority of the olives are tested as ready for harvest.

Sarah does not own a pressing machine, but has thought about whether or not *SOO* should have its own pressing machine. Currently, she transports her olives by truck to a pressing company, and brings the extracted olive oil back in large plastic containers to be emptied into stainless steel vats for storage until she is ready for bottling. She owns her own bottling machine.

Olive trees do not produce commercial quantities of olives until they are about 5 years old. Sarah planted her trees 10 years ago. Provided no disaster happens (eg frost), Sarah is now able to harvest a commercially viable crop each year.

With the high set-up costs and time until an income can be earned off the trees, *SOO* still has a mortgage over the land. The mortgage is currently \$600 000 with a fixed interest rate of 5% p.a.

*SOO* has the following assets:

- Picking and bottling machinery      \$ 3 000
- Steel storage containers                \$ 30 000

Sarah's financial security still depends heavily on income from her off-orchard job as an investment advisor. She has considered leasing (renting) the olive orchard to someone else, using the monthly lease (rental) income to repay her mortgage.

Sarah uses the following costs in her calculations:

### **Annual fixed costs, which include:**

- Interest on mortgage at 5% p.a.
- Depreciation on machinery and storage containers at 20% p.a. based on cost
- Insurance, irrigation, shelter belt maintenance and other fixed costs \$15 000 p.a.
- Pickers' wages – Four pickers at \$15.00 per hour. It takes the four pickers a total of 120 hours to harvest the 300 olive trees.

### **Variable costs, which include:**

- 250mL bottles    \$2.10 each
- Labels            \$0.50 per label
- Pressing cost    \$1.40 per bottle.

New Zealand is famous for the high quality of olive oil produced. *SOO* sells the high quality oil in 250 mL (ie  $\frac{1}{4}$  of a litre) bottles for \$10 each.

**RESOURCE TWO**

The following information should be used in conjunction with **Resource One** to prepare the Cash Budget for *Sole Optimus Olives* for March, April, and May 2013.

1. Each month Sarah sells 90% of her olive oil stock to top line restaurants on credit. The rest of the stock is sold for cash at the local farmers' markets.
2. Restaurants pay on invoice in the month following the purchase. With the very high demand for Sarah's quality product, she sells only to reputable people and so has no bad debts or late payers.
3. Bottles sales:

February (actual)	3 000 bottles
March (estimate)	2 500 bottles
April (estimate)	2 000 bottles
May (estimate)	1 800 bottles

4. Fixed costs, except for pickers' wages, are assumed to be evenly spread throughout the year.
5. Each year, Sarah makes one lump-sum principal repayment on the mortgage of \$15 000 in September.
6. Harvesting can occur any time between April and July each year, but Sarah has assumed her crop will be ripe for picking in May. Therefore, the month of May is when Sarah will pay her pickers' wages and pressing costs, as once the olives have been harvested, they will be pressed to produce 3 240 litres of extra virgin olive oil.
7. Sarah buys bottles and labels in bulk prior to the picking season. In March, she will purchase 20 000 bottles and 20 000 labels. This cost will be paid immediately via internet banking, using her phone.
8. Sarah has drawings of \$4 000 cash per month.
9. Long-range weather forecasts predict frost during April. Five local orchardists, including Sarah, have agreed to budget for the cost of a helicopter, to be used to prevent frost settling in their trees. The total cost of \$10 000 will be shared equally in April between the five orchardists.

