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91408



Draw a cross through the box (☒) if you have NOT written in this booklet

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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 3 Accounting 2023

91408 Demonstrate understanding of management accounting to inform decision-making

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 parts of the question in this booklet.

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

Show your working for all calculations.

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.

Do not write in any cross-hatched area (DO NOT WRITE). This area will be cut off when the booklet is marked.

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

Excellence

TOTAL 08

QUESTION

Refer to Resource A and Resource C when answering parts (a) to (c).

- (a) Calculate the break-even number of clients for fishing trips on a per trip basis.

$$\frac{FC}{SP - VC} = \frac{63,000}{120 - 50} = \frac{63,000}{70} = 900$$

$50 \times 3 = 150$
 $\frac{63,000}{150} = 420$
 $120 - 50 = 70$ cm
 Break-even number of clients per fishing trip 6

- (b) Calculate the annual profit from fishing trips, based on an average of 15 people per trip, assuming three trips per week over 50 weeks.

$$\text{units} \times \text{cm} - \text{FC}$$

$$2250 \times 70 = 157,500 - 63,000 = 94,500$$

Annual profit from fishing trips \$ 94,500

- (c) Explain how the seasonal nature of fishing may impact on the monthly profit earned by *Tauika*.

Because fishing is an outdoor sport done by most people in summer in warmer weather, this may impact the monthly profit earned by *Tauika*. In the summer months he is likely to earn more profit between October to March as this is when he is often fully booked. In winter months between April to September he will likely earn less overall for these months due to fishing being influenced by seasons. In the weeks leading up to Christmas in summer, *Tauika* also provides some extra trips to corporate clients which will increase his profit in the summer months even more.

Refer to Resource B when answering parts (d) and (e).

The break-even number of clients per dive tour is four.

- (d) Calculate the margin of safety percentages for dive tours over the first three months with three people per tour, and once the average number of people reaches six people per tour.

$$\frac{CO - BE}{CO} \times 100$$

$$\frac{3 - 4}{3} \times 100 = -33.3\%$$

$$\frac{6 - 4}{6} \times 100 = 33.3\%$$

Margin of safety percentage with three people	-33.3%	%
Margin of safety percentage with six people	33.3%	%

- (e) Explain the meaning of each margin of safety for dive tours you calculated in (d).

The margin of safety percentage with three people is -33.3%, meaning Tauika as a business is not breaking even on dive tours with ~~3~~³ people per tour.

They are not making any profit with three people and aren't reaching a breakeven that is over 0.

The margin of safety percentage with six people is 33.3%, meaning Tauika is well above breakeven and is making profit. A positive margin of safety means sales can fall by 33.3% before Tauika stops making profit. Pania who will run the dive tours will need to ensure she keeps an average of 6 people per tour because if this decreases by only two people, she will no longer make a profit and her margin of safety will drop to below 0:

Refer to Resources B and C when answering part (f).

- (f) (i) Complete the cash budget for *Tauika* for the three months ended 31 January 2024. The fishing trip figures and drawings have been provided for you. Annual fixed costs (cash) are paid monthly.
- (ii) Calculate the total receipts, total payments, and cash surplus or deficit for each month.

***Tauika* Cash budget for the three months ended 31 January 2024**

	November	December	January
Estimated receipts			
Fishing	53 080	28 080	26 160
Diving	14 000	28 700 14 000	30 100 14 000
Total estimated receipts	67 080	56 780 42 080	56 260 28 160
Estimated payments			
Variable expenses fishing	11 000	27 000	11 000
Variable expenses – diving	6 000 4 000	7 500 4 000	13 500 4 000
Fixed costs (cash) – fishing	4 250	4 250	4 250
Fixed costs (cash) – diving	8 600 4 000	8 600 4 000	8 600 4 000
Drawings	8 000	8 000	8 000
Total estimated payments	57 850 42 250	55 350 42 250	45 350 42 250
Cash surplus (deficit)	29 230 24 830	14 30 13 830	10 910 4 910

- (g) Make a recommendation to Manu about whether he should go into partnership with Pania and add dive tours to *Tauika*'s fishing trip offering. Consider the immediate and long-term impact of adding dive tours to *Tauika*'s fishing trips in your recommendation.

Your answer should include:

- detailed financial and non-financial information provided in this assessment and the resource booklet
- additional calculations and/or non-financial information necessary to support your recommendation
- a conclusion justifying your recommendation.

You may make any reasonable assumptions in the context of *Tauika*.

Use the table on page 5 to provide additional calculations and plan your answer. This may be used for marking purposes. Start your answer on page 6.

PLANNING

Financial considerations

In Dec, Dive receipts meant balance didnt go into overdraft of -7170.

and meant surplus was higher in Jan of ~~10,910~~ ^{10,910} not 6910 (just from fishing)

annual profit from 6avg people per dive tour (3 weekly for 50 weeks) \$ ~~105,000~~ ^{61,800}

which is ~~more~~ ~~than~~ profit from ~~fishing tours~~ (94,500)

more money to invest into more boats to increase customers.

combined profit of \$ ~~94,500~~ ^{156,300}

mediate impact, fixed costs increase but extra receipts cover this and it is ending SEP 2024 so ~~pre~~ annual profit after this will be \$105,000

Non-financial considerations

offer Dive charters as well. offer Dive tours also to corporate for more profit.

through social media, average people on trip is likely to increase.

people may book for a fish trip and decide to do a dive trip also.

add more boats or employees to open charter in another location (more accessible for some, ~~on~~ more people can book)

Manu going into a partnership with Pania would be a good addition to his business Tauika. Pania will provide her dive boat and Tauika can now offer dive tours as well as fishing tours for clients to book.

Financial considerations:

Adding dive tours to Manu's business will have a great impact on sales and profit. It can be estimated that annually with 6 clients per 3 weekly dive trips over 50 weeks, that this will generate \$61,800 for Tauika. This extra profit can be used to cover the extra payments and expenses from the addition of dive tours. Tauika's cash budget for December ended with a surplus of \$1430, however without including any of the Dive payments or receipts (including reducing Drawings back to \$4000), December would have been in a deficit of \$-7170. This shows that going into a partnership with Pania increases receipts in the cash budget to keep it in a surplus. The annual profit for Dive tours is currently averaging \$61,800 but this should increase to \$105,000 once loan repayments end in September 2024. This will provide an overall profit between Dive and fishing tours of around \$156,300. This profit could be used to expand the business in ways such as buying another boat and hiring another employee to increase the amount of possible bookings. Resource A states that over summer, fishing tours are often fully booked, showing there is a

demand for more available trips. As the corporate fishing trips are also extremely popular in December for Christmas, Manu and Pania could also provide corporate dive tours as well, as another way to increase their profit. Corporate ^{fishing} trips provide an extra 200 ~~people~~ clients which generates around an extra \$12,000 in sales in Dec after the \$200 discount per trip, ~~and~~ but before removing fixed costs. ~~Extra sales~~ Extra dive tour sales in Dec as well will likely generate more profit for Tauika also. Overall when considering financial information, it is a smart idea for Manu to partner with Pania as the extra sales dive tours bring in will help cover cash payments, and provide extra revenue to assist with expanding the business in the long term.

Non financial considerations:

Pania believes that once Dive tours are established within the business, she could also offer dive charters as well especially in summer. This would be a great way to continue the expansion of the business as well as showing client dive spots around the bay of plenty. ~~Through~~ Through advertising such as social media and word of mouth, Pania is confident she will be able to maintain an average of 6 clients per tour which increases the margin of safety to 33.3% which is a positive figure showing good sales. Some clients may also book, for example, the corporate fishing trip and be informed about new dive tours which brings attention to the new

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

QUESTION
NUMBER

side of the business. Some of these clients could also potentially then decide to purchase their family a ticket to go on a dive tour^{for christmas} which will bring awareness to the new side of the business. Adding an extra fishing boat and/or employee to Tauika also opens up opportunities to offer second fishing trips in a different location which could increase the amount of clients. An extra employee could also mean Manu can take more holiday weeks off to spend time with his family. Being in partnership with Pania also means Manu will get to spend more time with his sister. The opportunities for expansion in Tauika are large but only possible with a partnership with Pania.

Overall I would recommend the Manu enter a partnership with Pania to include Dive tours within Tauika. Sales and therefore profit will increase which provides opportunities for ~~short~~^{medium} term assistance in ~~the~~ keeping the cash budget in surplus, but also future impacts such as long term expansion of the business to open to more clients ~~and~~^{which will} continue to increase profits and ensure the business is successful.

91408

Excellence

Subject: Accounting

Standard: 91408

Total score: 08

Q	Marker commentary
(a)	Calculated break even correctly.
(b)	Calculated annual profit correctly.
(c)	Attempted an explanation as to why profit is affected by seasonality, no reference to changes in Variable costs and fixed costs.
(d)	Calculated margin of safety correctly.
(e)	Defined and explained, in context, the meaning of the margin of safety clearly.
(f)	Even though there are minor errors in November, shows understanding of the cash budget process in December and January.
(g)	<p>Shows an understanding of the wider, long-term situation for Manu through CVP calculations for annual profits with 6 clients both before and after the loan repayment. These are significant and relevant additional financial calculations which refer to the immediate and long-term impact of the decision. Relevant non-financial material used to support this financial reason when referring to spending time with family, and additional employee (Pania) providing resources to expand.</p> <p>The report is well written following the guidelines in the question.</p>