

91408



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

3

SUPERVISOR'S USE ONLY

## Level 3 Accounting, 2014

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

9.30 am Friday 21 November 2014

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 parts of all 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 2–11 in the correct order and that none of these pages is blank.

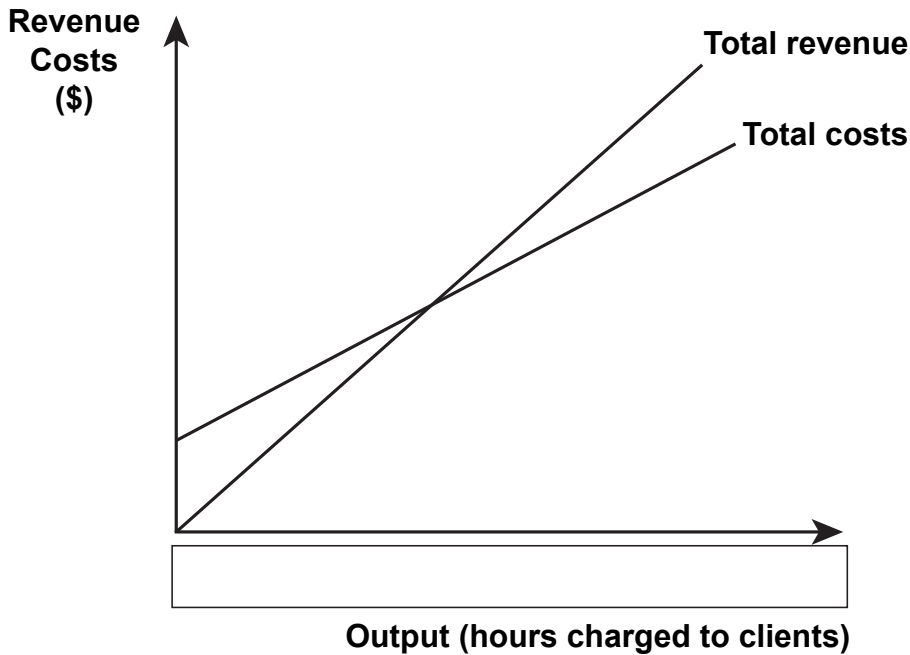
**YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.**

**TOTAL**

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**QUESTION ONE**

Use information from **Resource Booklet 91408R** and the diagram below to answer this question.



- (a) (i) On the diagram above, show and label fixed costs. You are not required to calculate a dollar value of fixed costs.
- (ii) Use the diagram to explain the link between **relevant range** and **fixed costs** for *MMM Ltd.*

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- (b) On the diagram above, within the box provided, label a point **X** on the Output axis which shows a **positive margin of safety**. Use your placement of the point **X** to explain the concept of margin of safety.

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**Note:** You must provide **detailed and labelled** workings for all your calculations. Labelled workings will be assessed. You may be required to round any calculation to the nearest whole number.

- (c) (i) Calculate the contribution margin **per hour** for *MMM Ltd*.

**Contribution margin per hour** \_\_\_\_\_

- (ii) Calculate the break-even point in hours chargeable **per year** for *MMM Ltd*.

**Break-even in hours chargeable per year** \_\_\_\_\_

(d) Use your calculations to explain the **concept of break-even point** for *MMM Ltd.*

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(e) Mack is considering purchasing his own diagnostic scanner for the workshop, costing \$7 000. This is a machine that can be connected to a motor and will generate a readout about how the motor is working. Justify whether the purchase of the diagnostic scanner is a routine or strategic decision for *MMM Ltd.*

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The examination continues on the following page.**

**QUESTION TWO**

Use information from **Resource Booklet 91408R** to answer this question.

- (a) Complete the cash budget below for *MMM Ltd* showing the receipts and payments for June, July, and August 2014. Assume each month has **four** weeks.

***Mack's Mechanical Maintenance Limited***  
**Cash Budget**

	June	July	August
<b>Receipts</b>			
Repair fees received			
Transfer from personal bank account			
<b>TOTAL RECEIPTS</b>			
<b>Less payments</b>			
Drawings	6 000	6 000	6 000
<b>TOTAL PAYMENTS</b>			
Surplus (deficit) of cash			
Opening bank balance	(10 000)		
Closing bank balance			

(b) Mack has been working hard to make *MMM Ltd* successful. He is aware of how important the cash budget is to his business, and he is concerned about what it is showing / forecasting. Justify the importance of the cash budget in (a) to the success of *MMM Ltd*.

Include in your answer:

- an explanation of the purpose of Mack preparing a cash budget for *MMM Ltd*
- an explanation of a business strategy consistent with the information in the **resource booklet** that Mack could use to improve the cash position of *MMM Ltd*
- a clear link to the impact the strategy will have on *MMM Ltd's* cash budget.

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**QUESTION THREE**

Use information from **Resource Booklet 91408R** and your answers to Question One and Question Two to answer this question.

If Mack hires an apprentice, *MMM Ltd* will have to pay him \$15 per hour for a 40-hour week. Initially, the apprentice will use Mack's tools so will not require additional cost with equipment, but there are training costs to consider as detailed in the extract below.

'The annual training fee is charged to your employer (for new training agreements from October 2012). Employers may cover either part or all of the costs of their apprentices' annual training fees, or they may recover the costs with a payroll deduction from your salary.'

Source: <https://mito.org.nz/getting-started/apprenticeships/cost-funding>

Mack feels that, as a good employer, he wants to cover all of the costs for the apprentice as he remembers how hard it was to survive financially when he was a young mechanic just starting out. This would mean that *MMM Ltd* would pay the \$1 140 per annum.

Recommend whether or not *MMM Ltd* should hire an apprentice.

In your answer, provide detailed and justified reasons for your recommendation, using both **financial** and **non-financial information**.

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