

91408R



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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Level 3 Accounting, 2015

91408 Demonstrate understanding of management accounting to inform decision-making

2.00 p.m. Monday 30 November 2015
Credits: Four

RESOURCE BOOKLET

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

Check that this booklet has been printed on page 2.

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

RESOURCE

Bob and Wendy Hexton own a house in Auckland, where they currently both have jobs. Bob is a builder, earning \$60 000 p.a. (after tax) and Wendy is a chef, earning \$45 170 p.a. (after tax). Their Auckland house has a current market valuation of \$750 000, and they are thinking about selling the house and getting out of the “rat race” by moving to the country, and developing their own business. Neither has any experience of managing a business.

They have found a historic property near Roxburgh (population 600), halfway between Dunedin and Queenstown. There is a hotel that serves meals in the evening across the road. The property is large (1.573 hectares), with a separate workshop, vehicle parking, and a fruit tree orchard. It is on the market for \$375 000. They could use Bob’s building skills to convert some old, neglected stone foundation greenhouses on the property into tourist accommodation units, each with its own bathroom facilities. They would call this business *Hexton Bed and Breakfast (HBB)*.

About 700 000 tourists visit Queenstown each year, which is only 90 minutes by car from Roxburgh. The activities available in the region are becoming increasingly popular – riding the cycle trail, visiting historic gold field sites, salmon and trout fishing, hill trekking, skiing, and many others.

After the sale of their Auckland property, Bob and Wendy estimate that they would still require a mortgage with the bank of \$150 000 to buy the property near Roxburgh and complete the renovation. This is lower than their current mortgage in Auckland.

Costing information for *Hexton Bed and Breakfast (HBB)*

Income

There would be eight accommodation units. Each unit would be rented for \$100 per night for bed and breakfast.

Bob and Wendy expect 90% of the income to be cash.

The remaining 10% would come from tour operators, who would pay 90% of what they owe in the month following invoicing with the remaining 10% being paid two months following invoicing. Bob and Wendy do not expect any bad debts.

December (first month of operation)	January	February
All 8 units booked every night of the week.	All 8 units booked every night of the week.	Only 3 units booked every night of the week.

Fixed costs: approximately \$43 550 per year

Mortgage principal and interest	\$1 005 per month
Insurance, paid in equal monthly installments	\$3 000 per year
Other operating expenses	\$429 per month
Vehicle expenses, paid monthly	@ 70c per kilometre 1 trip to Dunedin each month (150 km each way) PLUS 4 trips to Alexandra each month (40 km each way)
Repairs and maintenance, paid in equal monthly amounts	\$3 600 per year
Drawings	\$1 000 per month
Depreciation on buildings	3% per year

Variable costs: \$35 per night, comprising

Breakfast	\$10 per person per night (assume two people per unit)
Cleaning	\$15 per unit per night