

91408



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SUPERVISOR'S USE ONLY

Level 3 Accounting, 2018

91408 Demonstrate understanding of management accounting to inform decision-making

2.00 p.m. Tuesday 13 November 2018
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.

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 2–15 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

ASSESSOR'S USE ONLY

Notes:

- Ignore GST for all calculations.
- For any required calculations, you must provide detailed and labelled workings. Labelled workings may be assessed.

Beefed Up is a spice wholesale and retail business owned by Conrad Beef, who set it up some years ago after winning a chef competition. His prize was to travel around the world to work with famous chefs in their restaurants. The contacts he made supply *Beefed Up* with top quality, bulk spices. This inventory arrives in large shipping containers from time to time, and is repackaged into packets by casual production staff. *Beefed Up* also employs permanent sales staff who sell these packets of spices to retail customers and restaurant chefs.

Conrad lives on the outskirts of a small city. He uses one of the sheds on his property as *Beefed Up*'s premises, which includes a shop selling direct to the public. *Beefed Up* does not sell its products online.

QUESTION ONE

- (a) A study of the current operations of *Beefed Up* shows that Conrad sells his spice packets for an average price of \$3 per packet. Variable costs are 50 cents per packet, and fixed costs are \$250 000. Complete the following calculations, showing working.

- (i) Break-even of sales (in dollars).

Break-even: \$ _____

- (ii) Margin of safety (in packets) if *Beefed Up* has \$900 000 sales.

Margin of safety (in packets): _____

- (iii) Conrad has a desired profit of \$600 000. Calculate how many packets *Beefed Up* will need to sell per year to meet this goal.

Packets per year: _____

- (b) Explain why the wages for *Beefed Up* staff are classified as semi-variable expenses.

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The examination continues on the following page.**

QUESTION TWO

- (a) Prepare a Schedule of Accounts Receivable and a Cash Budget for *Beefed Up* for the two months ended April 2019 using the following data:
- *Beefed Up* has cash/EFTPOS sales through the shop. These are normally \$15 000 per month.
 - The rest of the sales are on credit (as detailed in (i) below) to restaurant customers who pay as follows:
 - 90% pay in the month following sale, with a 5% discount for prompt payment
 - 8% pay in the second month
 - 2% become bad debts.
 - Wages paid in cash are \$20 000 in March and \$15 000 in April.
 - Cash Drawings are \$5 000 per month.
 - Other expenses paid in cash are \$2 000 per month.
 - Depreciation on equipment is a flat rate of \$1 600 per month.
 - Costs of sales are: February \$5 000, March \$4 150, and April \$6 000. These are paid in the month following purchase.
 - *Beefed Up* pays GST owing in April of \$7 500.

(i)

Beefed Up**Schedule of Accounts Receivable for the two months ended April 2019**

Month of credit sale		March	April
	\$	\$	\$
January	20 000		
February	15 000		
March	10 000		
TOTAL			

(ii)

Beefed Up
Cash Budget for the two months ended April 2019

	March	April
	\$	\$
Receipts		
TOTAL RECEIPTS		
Less payments		
TOTAL PAYMENTS		
Surplus (deficit) of cash		
Opening bank balance	2600	
Closing bank balance		

(b) The Cash Budget is an essential tool to assist Conrad in his decision-making for *Beefed Up*.

(i) Explain the reason(s) for preparing an accurate Cash Budget in relation to Conrad's decision-making for *Beefed Up*.

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The examination continues on the following page.**

QUESTION THREE

Conrad has read about the business trend of customers having goods delivered to their door. In addition to *Beefed Up* selling spices, Conrad thinks he can provide boxed ingredients and accompanying recipes, to be delivered to customers' doors once a week, on Sundays. This will save his customers time in their busy lives, and enable them to cook exciting meals in their own homes. There are no competitors for this service in Conrad's region.

Beefed Up is already a well-established brand name in the small city.

This part of Conrad's business would start up in May 2019.

Conrad has prepared a Business Plan for *Beefed Up*'s proposed new food box venture for his bank manager, and has calculated the following costs:

- selling price of a food box per week is \$85 (three meals for two people)
- variable costs are expected to total \$60 per box
- fixed costs related to this expansion are \$150 000 per annum
- a delivery van will need to be purchased at a cost of \$30 000 (including signwriting).

Note: These costs are additional to the cost information provided in Question One (a), on page 2, for *Beefed Up*.

Use the information above, as well as your comments and calculations for Questions One and Two, to answer this question.

Recommend whether Conrad Beef should:

- (a) continue to operate *Beefed Up* as a spice wholesaler and retailer, operating out of a shop

OR

- (b) expand *Beefed Up* to include a weekly food box ordering and delivery service.

You should provide detailed and justified reasons for your recommendation. Your report should consist of:

- an introduction that includes a clear statement of your recommendation
- a main body (with sub-headings if appropriate) consisting of reasons explaining your recommendation
- a justified conclusion.

Your report should expand on the information about *Beefed Up* already provided in this booklet, and must include:

- both financial AND non-financial information
- relevant calculations from Questions One and Two, AND any other calculations you consider important in helping Conrad Beef to understand the key issues in making this decision.

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