

91408



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## Level 3 Accounting, 2019

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

2.00 p.m. Tuesday 26 November 2019  
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 2–14 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

Read the entire examination booklet BEFORE you start your answers.  
Ignore GST for all calculations. For any required calculations, you must provide detailed and labelled workings. Labelled workings may be assessed.

*Smooth As* is owned by Phoebe and sells fruit and vegetable smoothies and juices made from local ingredients. Phoebe set up her business in January 2018 after completing her Management Studies degree and doing some travelling overseas. With her dad's assistance as guarantor for a \$10 000 loan from the bank, Phoebe started *Smooth As* in a nicely repainted second-hand shipping container.

The container is located on council-owned land situated between the beach and a cycleway. It is also near the port, where cruise ships come in regularly from mid-October to mid-April. She uses bottled gas and solar panels for energy and pays a small rental to the local council. In the busiest summer months, Phoebe sometimes hires an extra staff member, but for most of the year she operates *Smooth As* alone.

**QUESTION ONE**

- (a) The average selling price of the drinks at *Smooth As* is \$8 per drink. Variable costs are \$3 per drink and fixed costs are \$65 000 per year. *Smooth As* is closed on Mondays and Tuesdays. Calculate how many drinks *Smooth As* has to sell a day to break even.

Break-even number of drinks per day: \_\_\_\_\_

- (b) For seven months of the year (i.e. summer, school holidays) when there are tourists in addition to the locals, *Smooth As* sells approximately 150 drinks per day, which is above the break-even amount. In the remaining months (i.e. winter) *Smooth As* averages only 20 drinks per day, below the break-even amount.

Explain the impact of this sales pattern on *Smooth As*'s margin of safety.

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- (c) *Smooth As* pays interest to the bank on the business loan. The interest rate when Phoebe first took out the loan was 3.5% per annum, but it is now 6% per annum.

Explain whether interest on the loan is a fixed or variable cost for *Smooth As*.

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- (d) Phoebe would like *Smooth As* to earn a profit of \$123 500.

- (i) Calculate how many drinks per day *Smooth As* would have to sell to reach this target.

Drinks per day to reach profit target of \$123 500: \_\_\_\_\_

- (ii) How likely is *Smooth As* to reach this target? Justify your answer.

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**QUESTION TWO**

- (a) From the data below, prepare a Cash Budget for *Smooth As* for the two months ending February 2020.

- Expected cruise ship passengers for the month of January 2020 will be 36 000 and in the month of February 2020 will be 30 000. In the past, *Smooth As* has made sales to 5% of these passengers.
- Throughout the rest of the year a number of events in the community (such as food and wine festivals, sporting events, concerts, conferences, and family holidays) attract visitors from other parts of New Zealand to the region. Expected in January 2020 are 20 000 visitors for these types of activities and in February 2020 a further 10 000 visitors. In the past, *Smooth As* has made sales to 15% of these visitors.
- *Smooth As* expects to sell 20 drinks per day to locals. For the purpose of completing this cash budget, assume each month has four weeks.
- Cash drawings are \$5 000 per month.
- Part-time wages are \$1 500 in January and \$1 200 in February, paid by internet transfer.
- Rent paid to the council is \$450 per month.
- Other expenses paid by internet transfer are \$1 000 per month.
- Interest on the loan is 6% per annum.
- Depreciation on the shipping container shop is \$200 per month.
- Cost of supplies is paid by internet in the month following purchase. In December \$15 600 was purchased, in January \$10 200 was purchased, and in February \$9 500 was purchased.
- In January, Phoebe pays her two-monthly GST payment of \$6 500 to the IRD.
- Phoebe contributed her own car to the business in February, which has a historic cost of \$8 000.



Image source: <http://amysoffice.net/g/2017/03/terrific-shipping-container-homes-brisbane-images-decoration-inspiration.jpg>

<i>Smooth As</i>		
Cash Budget for the two months ending February 2020		
	January	February
<b>Receipts</b>		
<b>TOTAL RECEIPTS</b>		
<b>Less payments</b>		
<b>TOTAL PAYMENTS</b>		
Surplus (deficit) of cash		
Opening bank balance (overdraft)	(2 500)	
Closing bank balance		

- (b) Given the seasonal nature of *Smooth As*, preparation of a Cash Budget based on accurate projections is essential to ensure the business is sustainable, successful, and efficient as a business.

Justify how Cash Budgets are an essential tool for both routine AND strategic decision-making. In your response, use examples from your answers to (a) and relevant resource material in this booklet.

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*There is more space for  
your answer to this question  
on the following page*



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The examination continues on the following page.**

### QUESTION THREE

Phoebe is considering a new business venture for *Smooth As*. While Phoebe was travelling in Europe, she noted how successful eScooters (electric scooters) were as a business opportunity, particularly in cities that had few hills like her home town. Users locate and access the eScooters using an app on their phone. The same app also provides information for juicers (people who are hired to pick up the scooters and take them to a place for recharging, which requires plug-in to a power source overnight).

Phoebe has a friend, Monica, who studied with her at university and has considerable talent and some experience at writing apps for business use. Monica works for a software development company and has agreed to undertake the contract to write the software.

Phoebe currently uses the local tourism Facebook site, as well as Twitter and Instagram, for marketing her services. These are *Smooth As's* only marketing costs.

Phoebe has prepared a business plan for the proposed new venture for her financial advisor and has calculated the following cost information. The data below relates to the eScooter business only.

- Selling price is expected to be about \$18 per hour (scooters are removed for recharging at 9 p.m. and returned at 6 a.m.).
- Variable costs are expected to total \$8 (most of which relates to the amount paid to the juicers each night per scooter).
- Fixed costs related to the new business are \$100 000 per annum.
- Phoebe has decided to start small by purchasing only 50 eScooters at \$800 each. Modification to accommodate Wifi for app connection will require an additional \$500 per scooter.

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

Recommend whether Phoebe should:

- (1) continue to operate *Smooth As* as a cold drinks business only  
OR
- (2) expand *Smooth As* to include eScooters using a smartphone app.

Your report should expand on the resource information, and must include:

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

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.



Select (✓) ONE recommendation for Phoebe:

- Continue to operate *Smooth As* as a cold drinks business only.
- Expand *Smooth As* to include eScooters using a smartphone app.

The following planning space is provided for you to use to develop ideas for your report.  
Begin your answer on page 10.

<b>PLANNING</b>	
<b>Financial considerations</b>	<b>Non-financial considerations</b>
<b>ADDITIONAL CALCULATIONS</b>	













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