

# 3

91408



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## Level 3 Accounting 2020

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

2.00 p.m. Monday 23 November 2020  
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 2–16 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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**Notes:**

- 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 will be assessed.

Jack completed his apprenticeship to become a fully qualified builder two years ago. He earns \$80 000 per annum (\$61 520 after tax and ACC levies). He has a good boss who has given him lots of opportunities, but Jack wants to start his own business, now or in the near future.

Jack feels his hard skills (technical knowledge and practical skills in house building) would allow him to connect with one of the latest trends: tiny houses (some on wheels), which are built in such a way that they are environmentally friendly (solar panels, small footprint, with composting toilets).

He has found a construction yard that he can rent on a year-by-year basis. The area is large enough that Jack believes he could produce as many as four tiny houses per year. He is going to call his business *Jack's Tiny Houses* and plans to start on 1 February 2021.

Source (image): <https://www.cleanpng.com/png-tiny-house-movement-house-plan-interior-design-ser-4407713/preview.html>

**QUESTION ONE**

- (a) The expected selling price is \$140 000 per house. Variable costs are \$75 000 per house. Calculate the contribution margin per house.

Contribution margin per house: \_\_\_\_\_







**QUESTION TWO**

- (a) From the information below, prepare a Cash Budget for the first three months of Jack's business, ending April 2021. Assume there are four weeks in one month.

Jack accepts one contract to build at a time. He will start his first house on 1 February. Each tiny house takes three months to complete and will be sold for \$140 000. He requires a 5% deposit when he starts the work. An additional 35% is due by the end of the second month of construction. The final amount is due when the tiny house is finished and meets all building and local council regulations. At that point Jack arranges for the tiny house to be delivered to the client.

Variable costs are expected to total \$75 000 per house, paid in equal instalments over three months.

Fixed costs are estimated below:

- Various insurances (vehicle, tools, yard, public liability) are paid in monthly instalments of \$200.
- The annual subscription fee to become a Registered Master Builder is \$1 800. This is paid monthly, beginning in February.
- Rent for the yard is paid monthly. The annual rental is \$48 000.
- Drawings will be \$1 200 per week.
- Other expenses are expected to total \$350 per month.

There are four tax payments that will be spread over the year, beginning in April. Jack expects tax for the year to be approximately \$58 000.

**Jack's Tiny Houses**  
**Cash Budget for the three months ended April 2021**

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|                           | February | March | April |
|---------------------------|----------|-------|-------|
| <b>Receipts</b>           |          |       |       |
|                           |          |       |       |
|                           |          |       |       |
| <b>TOTAL RECEIPTS</b>     |          |       |       |
| <b>Less Payments</b>      |          |       |       |
|                           |          |       |       |
|                           |          |       |       |
|                           |          |       |       |
|                           |          |       |       |
|                           |          |       |       |
|                           |          |       |       |
|                           |          |       |       |
|                           |          |       |       |
|                           |          |       |       |
| <b>TOTAL PAYMENTS</b>     |          |       |       |
| Surplus (deficit) of cash |          |       |       |
| Opening bank balance      | 15 000   |       |       |
| Closing bank balance      |          |       |       |



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The examination continues on the following page.**

**QUESTION THREE**

During the meeting, the bank manager made some suggestions, which Jack will use if he goes ahead with his business:

- Hire a building labourer at \$20 per hour. This will increase variable costs by \$6 930 per house but will mean that Jack can complete his tiny houses in two months instead of three.
- Set aside funds to meet ACC levy obligations, which are likely to increase variable costs by \$920 per house in addition to the \$4 600 he did not consider in his original plan.
- Contact a web designer to set up a website for communication and to advertise his product to potential clients. This will add \$3 000 to fixed costs but, in conjunction with his Snapchat, Facebook and Instagram accounts, will ensure that his work is known and will increase the potential of making sales.

Recommend whether Jack should:

- (1) Continue working for his current boss to gain a few more years' experience  
OR
- (2) Start his own business, *Jack's Tiny Houses*, using the bank manager's suggestions.

Your report should expand on the resource information, 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 Jack 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 Jack:

- Continue working for his current boss to gain a few more years' experience.
- Start his own business, *Jack's Tiny Houses*, using the bank manager's suggestions.

The following planning space is provided for you to use to develop ideas for your report.  
Begin your answer on page 12.

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









