

91408



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Level 3 Accounting 2021

91408 Demonstrate understanding of management accounting to inform decision-making

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.

Do not write in any cross-hatched area (///). This area may be cut off when the booklet is marked.

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

INSTRUCTIONS

- Read the entire Question 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.

Fergus runs a veterinary practice called *Animal's Best Friend Group (ABFG)*. He operates:

- Main Clinic in the centre of town, and
- Branch Clinic in a suburb 25 kilometres away.

Fergus has summarised some data relating to this business below:

	Main Clinic	Branch Clinic
Average fee per consultation visit	\$400	\$200
Number of qualified vets	4	1
Average salary per vet	\$150 000 p.a.	\$120 000 p.a.
Number of vet nurses	3	1
Hourly wage rate per vet nurse	\$25 per hour	\$20 per hour
Administrative staff	2	1
Hourly wage rate per administrative staff	\$20 per hour	\$20 per hour
Annual lease of premises	\$71 500 p.a.	\$12 500 p.a.
Annual lease of equipment	\$2 500 per week	\$500 per week

Animal's Best Friend Group leases specialist vet services software. The lease payment is charged in groups of ten users. *Animal's Best Friend Group* use the software in both clinics and pays \$650 per month for up to 20 users (staff). If there were fewer than 10 users (no Branch Clinic), this cost would reduce to \$350 per month.

Only the Main Clinic has a full suite of surgical equipment and facilities. Both clinics sell specialist pet food supplies. Both clinics have a full range of veterinary drug supplies.

Critical issues

Fergus expects to earn \$480 000 per year as the owner of *Animal's Best Friend Group*. In the year ended 31 March 2021 he has struggled to make this return. He worries that a similar result will occur for the year ended 31 March 2022.

If he cannot get the return he expects from his business, Fergus is thinking that he might have to close Branch Clinic.

QUESTION ONE: Cost concepts and CVP calculations

- (a) Fergus has calculated that Main Clinic has fixed costs of \$1 095 000 per year. The average fee received (selling price) for each consultation at Main Clinic is \$400 per visit. Variable costs are \$100 per visit.

Calculate breakeven in terms of consultations per day assuming 365 days a year.

Breakeven in number of visits per day: _____

- (b) Fergus has treated the annual lease of software as fixed costs and the cost of inventory (medicines, specialist pet supplies, and other stock) as variable costs.

Using the definitions for fixed and variable costs, justify why his interpretation is correct in the *Animal’s Best Friend Group* veterinary practice context.

- (c) For Main Clinic, fees received are \$2 million (\$2 000 000). Main Clinic is open 365 days per year. Using this information and data from (a), calculate the number of visits per day (round to the nearest whole number).

Number of visits per day: _____

- (d) Using data from (a) and (c), calculate the margin of safety in number of visits per year for Main Clinic.

Margin of safety in vet consultations (visits) per year: _____

- (e) Fergus is also interested in the margin of safety per week.

Justify why the margin of safety per week might be a more useful management decision-making tool than the per-year calculation from (d). Include in your answer the purpose of calculating the margin of safety.

QUESTION TWO: Cash budget for *Animal's Best Friend Group*

Note: The data below incorporates the cash receipts and cash payments for both branches of *Animal's Best Friend Group*.

90% of services are paid for by EFTPOS as the client picks up their pet (i.e. cash).

The rest of the *Animal's Best Friend Group's* business involves home visits and a few regular contracts (for organisations such as the NZ Police). For services provided on credit, payment is received as follows:

- 80% in the month following provision of the service
- 15% pay in the second month
- 5% are written off as 'not recoverable'.

- (a) Complete the following table to calculate cash from EFTPOS fees received and cash from accounts receivable.

Month	Total fees	EFTPOS	Credit	January	February	March
November	130 000					
December	180 000					
January	200 000					
February	210 000					
March	250 000					

- (b) Using the data from (a) and the information below, prepare a cash budget for three months of *Animal's Best Friend Group's* business for the period ending March 2022.

- Vets must be on site just in case they are needed. Fergus estimates the annual salaries for vets is \$720 000 per annum paid monthly.
- Vet nurses and administration staff wages are estimated at 10% of total fees per month.
- Lease of premises, lease of equipment, and lease of software are paid monthly. (Refer to page 2 for figures).
- Purchases of inventory are paid monthly, and are estimated to be 20% of total fees from the previous month.
- Drawings by Fergus each month is sufficient to ensure he gets \$480 000 per year.
- Fergus intends to replace *Animal's Best Friend Group's* car in March, which will cost \$120 000 after the trade-in of the old vehicle. Fergus intends to pay one third now, with the balance payable over the next two years at 0% interest.
- GST is payable two monthly, due in February, and is estimated to total \$30 000.
- General expenses, paid monthly, are estimated at 5% of total fees for the month.

Assume there are 4 weeks in one month.

Animal's Best Friend Group Cash Budget for three months ended March 2022

	January	February	March
Receipts			
Cash from EFTPOS fees received			
Cash from accounts receivable			
TOTAL RECEIPTS			
Less payments			
TOTAL PAYMENTS			
Surplus (deficit) of cash			
Opening bank balance overdrawn	(5000)		
Closing bank balance			

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The examination continues on the following page.**

QUESTION THREE: Report on decision-making using financial and non-financial information

Fergus has calculated that Branch Clinic has a lower breakeven than Main Clinic of 4 pet visits per day, with an average fee received per visit of \$200 and lower variable costs of \$50.

Branch Clinic is open for only 5 days a week (no weekends), or 260 days per year.

Recommend whether Fergus should:

- (1) Close Branch Clinic, reduce staff, and operate only from Main Clinic in future
OR
- (2) Hire an extra senior veterinarian and another vet nurse, who will work from Branch Clinic, with the aim to expand that part of the business.

Write a report to justify your choice.

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

- both financial AND non-financial information
- any relevant calculations from Questions One and Two AND any other calculations you consider important in helping Fergus to understand the key issues in making this decision for *Animal's Best Friend Group*.

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 Fergus:

- Close Branch Clinic, reducing overall staff levels (i.e. shrink the business, at least in the short term)
- Hire new staff to expand Branch Clinic (i.e. grow the business, over the medium to long term)

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

PLANNING	
Financial considerations	Non-financial considerations
ADDITIONAL CALCULATIONS	

**Extra space if required.
Write the question number(s) if applicable.**

**QUESTION
NUMBER**

A grid for student answers. It consists of a vertical line on the left side and horizontal lines that create rows for writing. There are 26 rows in total, starting from the top of the grid area and extending down to the bottom of the page. The space between the vertical line and the first horizontal line is aligned with the 'QUESTION NUMBER' header.

Extra space if required.
Write the question number(s) if applicable.

QUESTION
NUMBER

Lined area for writing answers, with a vertical line separating the question number column from the main writing area.

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