

91408



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Level 3 Accounting 2022

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 2–12 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.

Alumnz Limited manufactures a range of boats including aluminium dinghies.

The directors are considering expanding *Alumnz Limited's* factory and purchasing a new machine to increase production of aluminium dinghies, which have become increasingly popular over recent months.

The expansion of the factory and purchase and installation of new machinery will cost \$720 000.

This will be partly financed by a fixed-term two-year loan of \$480 000, with interest of 9% p.a. flat rate payable monthly for the 24 months.

An initial down payment of \$300 000 for the purchase of the machine will be made in September, followed by three equal monthly payments of \$140 000.

QUESTION ONE

- (a) Explain why the decision to purchase a new machine to produce aluminium dinghies is a strategic decision for *Alumnz Limited*.

The following budget estimates of dinghy sales, that assume the new machinery is purchased, have been made for September, October, and November.

	September	October	November
Dinghy sales \$ (25% cash and 75% credit)	180 000	200 000	230 000

Receipts from credit sales are typically received as follows:

- 80% in the month following sale
- 19% in the second month after sale.

1% of credit sales are allowed for potential bad debts when preparing the cash from credit sales budget.

- (b) Calculate the cash from credit sales for October and November in the table below. August's credit sales have been entered for you.

Credit sales in	Amount	Cash received in	
		October	November
August	120 000		
September			
October			
Total cash from credit sales			

- (c) Complete the Cash budget for aluminium dinghies for October and November by:
- Completing the Estimated receipts section.
 - Calculating the surplus or deficit of cash.
 - Calculating the estimated bank balance at the end of November. The estimated bank balance at the start of October has been entered for you.

Alumnz Limited
Cash budget for aluminium dinghies

	October	November
Estimated receipts		
Cash sales		
Credit sales		
Total estimated receipts		
Estimated payments		
Raw materials	58 305	63 375
Direct labour	23 520	26 880
Factory overhead	24 000	27 600
Selling and distribution expenses	13 900	15 400
Interest on loan	3 600	3 600
Machinery	140 000	140 000
Total estimated payments	263 325	276 855
Surplus (deficit) of cash		
Estimated bank balance at start	230 000	
Estimated bank balance at end		

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The examination continues on the following page.**

QUESTION TWO

The new machine can produce up to 40 aluminium dinghies per month.

Aluminium dinghy production information

Selling price	\$10 000
Variable cost	\$5 500
Fixed costs total per month	\$13 500

- (a) Using data from the table above, calculate the monthly break-even sales of aluminium dinghies. Show your working.

Break even at: _____ aluminium dinghies per month

- (b) (i) Using data from the table above, calculate the average monthly sales, in units, needed for *Alumnz Limited* to earn an annual profit of \$804 000 from aluminium dinghy sales. Show your working and round your answer to the next whole number.

_____ aluminium dinghies per month

- (ii) Explain whether the average monthly sales units calculated in (b)(i) are within the relevant range for the new machine.

The expected monthly sales of aluminium dinghies, assuming the new machinery is purchased, are shown in the table below.

Estimated number of dinghies to be sold each month

High season						Low season
Sept	Oct	Nov	Dec	Jan	Feb	March to August
18	20	23	25	22	20	Average 15 per month

- (c) Explain in detail, with reference to relevant calculations, whether the annual profit of \$804 000 from aluminium dinghies is achievable based on the estimated number of dinghies sold each month.

QUESTION THREE

Make a justified recommendation to the directors of *Alumnz Limited* as to whether or not the company should purchase the new machine.

In your answer, include:

- your recommendation
- detailed financial information, including information from previous answers
- detailed non-financial information
- a conclusion.

The following planning space is provided for you to develop ideas for your report. Begin your answer on page 9.

PLANNING	
Financial considerations	Non-financial considerations

