

91408



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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SUPERVISOR'S USE ONLY

Level 3 Accounting, 2014

91408 Demonstrate understanding of management accounting to inform decision-making

9.30 am Friday 21 November 2014
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.

Pull out Resource Booklet 91408R from the centre of this booklet.

You should attempt ALL parts of all 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 2–11 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.

Achievement

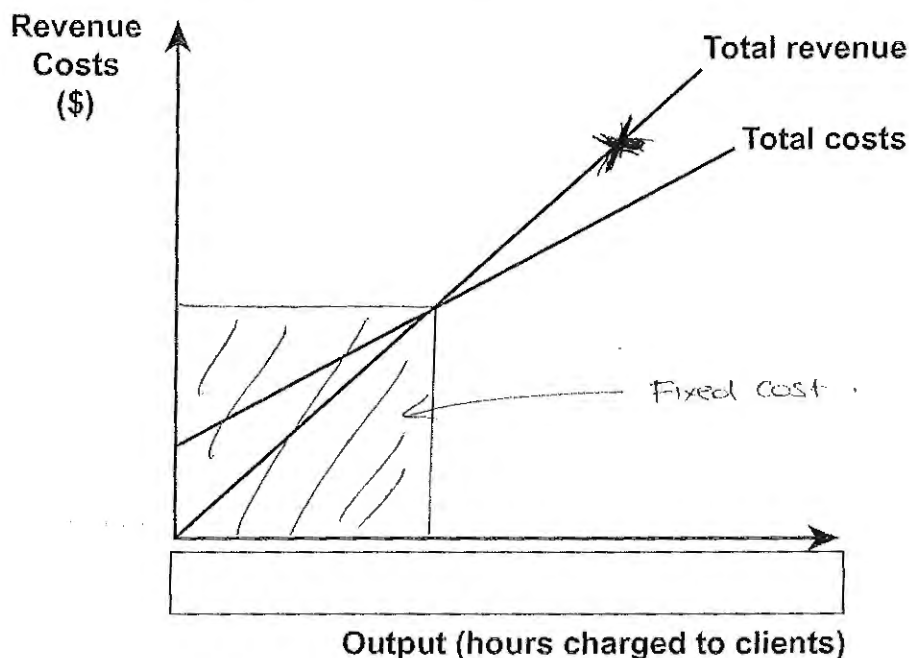
TOTAL

11

ASSESSOR'S USE ONLY

QUESTION ONE

Use information from Resource Booklet 91408R and the diagram below to answer this question.



- (a) (i) On the diagram above, show and label fixed costs. You are not required to calculate a dollar value of fixed costs.
- (ii) Use the diagram to explain the link between relevant range and fixed costs for MMM Ltd.

Relevant range for MMM Ltd represents the maximum level of production/service with the existing resources and the fixed cost represents amount of cost required to provide service without being relevant to how much service they provide. It is imperative for MMM Ltd to have a certain amount of service available in the relevant range in order to meet the capability of paying off the fixed costs.

- (b) On the diagram above, within the box provided, label a point X on the Output axis which shows a positive margin of safety. Use your placement of the point X to explain the concept of margin of safety.

The concept of margin of safety shows how many services MMM Ltd can drop to reach the break even point before making any profits. The diagram above shows how MMM Ltd

has a positive margin of safety which means that they ~~are~~ are currently safe from reaching the break-even point where they would be not making any profits.

Note: You must provide detailed and labelled workings for all your calculations. Labelled workings will be assessed. You may be required to round any calculation to the nearest whole number.

- (c) (i) Calculate the contribution margin per hour for *MMM Ltd*.

$$CM = SP - VC$$

$$CM = 60 - 6$$

Contribution margin per hour \$54 per hour

- (ii) Calculate the break-even point in hours chargeable per year for *MMM Ltd*.

$$BE = \frac{FC}{CM}$$

$$BE = \frac{29,970}{147,825} \rightarrow 0.202$$

Break-even in hours chargeable per year ~~0.202~~ ~~12 min 53 sec~~ ~~12 min 10 sec~~

→ 13 minutes
hours.

- (d) Use your calculations to explain the concept of break-even point for MMM Ltd.

Break-even point shows the point where MMM Ltd does not make any profit or loss. Break-even point for MMM Ltd represents how much they ~~covered their costs~~ need to earn in order to pay off their fixed cost and using the ~~extra~~ extra surplus for profit or to cover variable costs. It is also known as the point where profits ~~are~~ to the business will gain profits beyond the point ~~and~~ ~~the~~ point, and below the point is

- (e) Mack is considering purchasing his own diagnostic scanner for the workshop, costing \$7000. This is a machine that can be connected to a motor and will generate a readout about how the motor is working. Justify whether the purchase of the diagnostic scanner is a routine or strategic decision for MMM Ltd.

Purchasing a own diagnostic ~~scan~~ scanner for the ~~workshop~~ workshop will be considered as a strategic decision as it involves a change in the capital expenditure of adding ~~as~~ ~~another~~ property, plant and equipment. For MMM Ltd, due to the purchasing a new diagnostic scanner, it will require a highly approved permission from the CEO or the owner (Mark) of business to carry out. This is also compounded by how the diagnostic ~~scan~~ scanner will also generate profit in foreseeable future to simplify on whether the motor is working or not which will provide economic benefit in the future.

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QUESTION TWO

Use information from Resource Booklet 91408R to answer this question.

- (a) Complete the cash budget below for *MMM Ltd* showing the receipts and payments for June, July, and August 2014. Assume each month has four weeks.

Mack's Mechanical Maintenance Limited
Cash Budget

	June	July	August
Receipts			
Repair fees received	9000	9000	9000 CC
Transfer from personal bank account	9000 19,000	9000 19,000	9000 19,000
TOTAL RECEIPTS	19,000	19,000	19,000
Less payments			
Repair Fees	900	900	900
Rental workshop Workshop.	1380	1380	1380. ✓
Communications	260	260	260. ✓
Subscription to MTA	70	70	70. ✓✓
Depreciation.			
Office wages	8400	8400	8000.
Warrant of fitness.	850	—	— ✓
Drawings	6000	6000 17,010	.6000
TOTAL PAYMENTS	17,860	17,860 19,900	17,010
Surplus (deficit) of cash	1140.	1140 1990	1990
Opening bank balance	(10000)	(8860)	(6870)
Closing bank balance	(8860)	8860 (6870)	(4880).

- (b) Mack has been working hard to make *MMM Ltd* successful. He is aware of how important the cash budget is to his business, and he is concerned about what it is showing/forecasting. Justify the importance of the cash budget in (a) to the success of *MMM Ltd*.

Include in your answer:

- an explanation of the purpose of Mack preparing a cash budget for *MMM Ltd*
- an explanation of a business strategy consistent with the information in the resource booklet that Mack could use to improve the cash position of *MMM Ltd*
- a clear link to the impact the strategy will have on *MMM Ltd's* cash budget.

preparing a
 The purpose of a cash budget for *MMM Ltd* is to estimate budget of the cash flow of the business. *MMM* can utilise the cash budget to predict and estimate the amount of cash flowing out of their business and also predict whether the business can run properly with the certain amount of flow of cash. By utilising the cash budget, *MMM Ltd* is capable of diminishing specific payments in order to improve their cash position. One business strategy that *MMM Ltd* could use to improve the cash position is to

~~hire an apprentice to help Mack with the workshop services. This is because the apprentice will help add more funds through the interest free bank overdraft for the future. Due to *MMY Ltd* is well known for keeping their prices low as possible compared to other workshops, it is appropriate to consistently adding funds from his personal bank account to cover up his expenses.~~

~~hire an apprentice to help Mack with the workshop services.~~

adjust the pricing on the parts and add a slight mark-up to compete with the other workshops.

Mack mentions how he has "built up business keeping his price low as possible", he is not gaining enough profit to cover up his payments and making profits. The strategy of

adding mark-up to just compete with other competitors will impact the cash budget of *MMM Ltd* as it will increase receipts in the repair fees received which will be capable of covering the payments and the overdraft being deficit.

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QUESTION THREE

Use information from Resource Booklet 91408R and your answers to Question One and Question Two to answer this question.

If Mack hires an apprentice, *MMM Ltd* will have to pay him \$15 per hour for a 40-hour week. Initially, the apprentice will use Mack's tools so will not require additional cost with equipment, but there are training costs to consider as detailed in the extract below.

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Source: <https://mito.org.nz/getting-started/apprenticeships/cost-funding>

Mack feels that, as a good employer, he wants to cover all of the costs for the apprentice as he remembers how hard it was to survive financially when he was a young mechanic just starting out. This would mean that *MMM Ltd* would pay the \$1 140 per annum.

Recommend whether or not *MMM Ltd* should hire an apprentice.

In your answer, provide detailed and justified reasons for your recommendation, using both financial and non-financial information.

Mack should not hire a new apprentice.

First of all, the cash budget shows the current cash position for *MMM Ltd* is not favourably doing well.

Considering in long term as closing bank balance for the business is at deficit. By hiring another apprentice to

work at *MMM Ltd*, the office wages will increase

\$7200 in the cash budget. Considering *MMM Ltd* is

currently sitting at deficit balance it is uncertain that the

business will perform well in the short term. In addition, as a the

apprentice will require training, the training fee of \$1000

per annum will also cause a deficit on the

balance for *MMM Ltd*. Another reason is that it is

likely that the new apprentice would perform well at

work which could lead to complaints from customers about

extending the time charged. Another possibility is that the new apprentice may have a change in his life plans of taking different career paths which could lead Mack to once again replace his job and could cause loss of cash for MMM Ltd. Due to Mack having started his ~~own~~ business recently, he ~~cannot~~^{should} expect a loss of cash and being new to the concept of owning a business. So therefore, it is appropriate for Mack to not consider hiring a new apprentice as it will lead to ^{or} financial struggle for Mack in the short term and also a risk for Mack's business in the short term. This is because of MMM Ltd's current cash position and also the risk of an amateur worker who could struggle to maintain the work with MMM Ltd.

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