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91408



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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA



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.

**Not
Achieved**

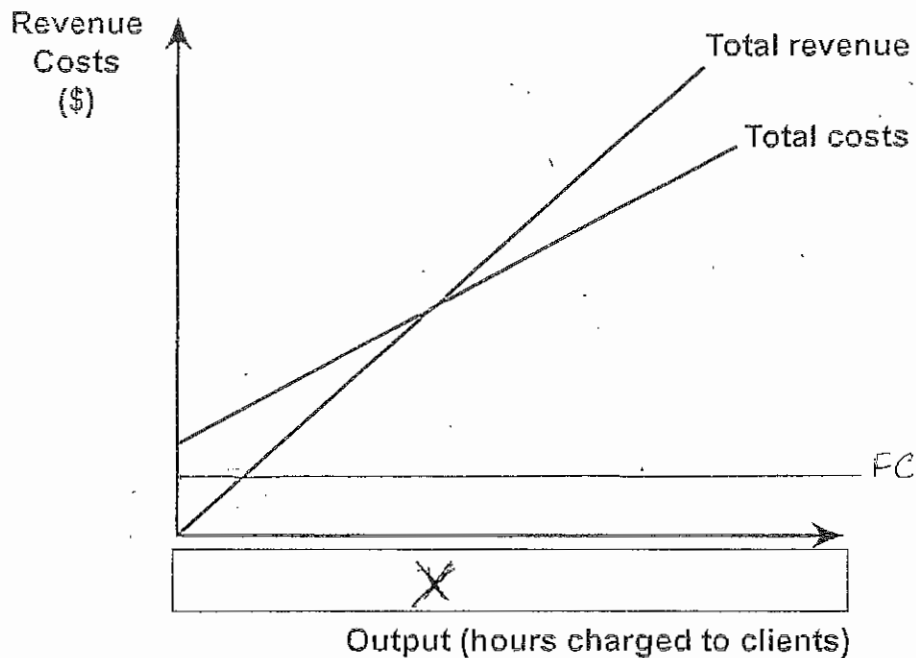
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ASSESSOR'S USE ONLY

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.

- (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.

Positive margin of safety is good. It simply means you have more profit or you have more money. Margin of safety is difference between your revenue and break even point.

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.

$$\text{Contribution margin per hour} = 60 - 6 = \$54$$

$$\text{Variable cost} = 60 \times 0.1 = \$6 \text{ per hour.}$$

Contribution margin per hour \$54

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

$$\text{BE} = \frac{\text{Fixed Cost}}{54} = \frac{29970}{54} = 555 \text{ hour}$$

$$\begin{aligned} \text{Fixed cost per year} &= 1380 \times 12 \\ &+ 260 \times 12 + 840 + 200 + 12 \times 17.50 \times 40 \\ &+ 850 = 16560 + 3120 + 840 + 200 \\ &+ 8400 + 850 = 29970 \end{aligned}$$

Break-even in hours chargeable per year 555 hours

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

Break-even point is the point which total revenue equals to the total cost (Variable cost + Fixed cost). It means your company works fine. You don't have extra profit but also you don't have loss. Simply mean margin of safety equals zero. Break even point is very important concept. If your total revenue can't reach break even point. It is hard to run your company. In long term you can't run your company.

- (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.

Break even point in dollars = $555 \times 60 = \$33300$

This is strategic decision, because if they purchase this scanner, their company will improve, the they service will be ~~good~~ ^{better} and more customers come so they earn more money. This is the point if you get this scanner you will earn more money. So this is strategic decision. Also it is very expensive.

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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	8000 9000
Transfer from personal bank account	1177 1177	1177 1177	1177 1177
TOTAL RECEIPTS	10177	10177	10177 10177
Less payments			
Work shop rental	1380	1380	1380
COMMUNICATIONS	260	260	260
SUBSCRIPTION TO MTA	70	70	70
DEPRECIATION ON TOOLS AND EQUIP	17	17	17
OFFICE WAGES	700	700	700
ANNUAL WARRANTS OF FITNESS LEASE	850		
Variable cost	900	900	675
Drawings	6000	6000	6000
TOTAL PAYMENTS	10177 10177	10177 10177	10177 10177
Surplus (deficit) of cash	0	0	0
Opening bank balance	(10000)	(10000)	(10000)
Closing bank balance	(10000)	(10000)	(10000)

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- (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.

Purpose of ~~the~~ preparing a cash budget is ~~to~~ that see how his company works. It is the easy way to analyse his ~~own~~ company. He can check total receipts and total payment + also can see company profit. One of the ~~the~~ most important thing is you make ~~business~~ strategy decision based on cash budget.

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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.

We should hire him

Financially, It is bad because you have to pay $(15 \times 40 \times 4) + (1100/12) = \2495 per month. It is much money for company.

But if you pay this money, in future, you don't have to worry about your company a lot. Because good employees will do it for you. The most important thing is if

Mack feels that, as a good employer. If you feel it good, I think it is good enough for hire.

Conclusion, It is bad for financially but non-financially it is good for your company and good for Mack. And Mack can ~~spend more time to his family~~ spend more time to his family.

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