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91408



914080



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SUPERVISOR'S USE ONLY

## Level 3 Accounting, 2015

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

2.00 p.m. Monday 30 November 2015  
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.**

Pull out Resource Booklet 91408R from the centre of 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 2–8 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**

**TOTAL**

**6**

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Refer to **Resource Booklet 91408R** to answer all questions.

Ignore GST, and provide detailed and labelled workings for all your calculations, which will be marked.

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### QUESTION ONE

- (a) Calculate the total number of *Hexton Bed and Breakfast (HBB)* unit rentals required per year to break-even if selling price is \$100 per unit per night, variable costs are \$35 per unit per night, and fixed costs are \$43 550 per year.

$$43550 \quad 100/30 \quad 3.33$$

$$43550 \div 3.3 = 13196$$

Break-even ~~13196~~ 13196 (total number of unit rentals per year)

- (b) Explain what the break-even calculation means for *HBB*.

The break even calculation for *HBB* means the total number of unit rentals per year are required to meet their standard of fixed cost of \$43 550 per year.

- (c) Bob and Wendy's goal is to earn as much per year from *HBB* as they did from their jobs in Auckland (i.e. make a profit of \$105 170). Calculate how many times on average *HBB* would have to rent out one unit to achieve this.

$$105170$$

$$105170 \div 100 / 3.3$$

Target rental, on average,  
for **one unit** per year to achieve a profit of \$105 170

$$318.69$$

- (d) Justify whether this target rental is achievable for HBB.

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The target rental of \$318 per unit is achievable because they would need to rent out ~~an~~ their unit for over \$300 to achieve a profit goal of \$105170. To achieve a profit goal of \$105170, renting a unit would make them reach their goal, whereas stuck with the price of \$100 per unit room will mean it may take ~~a~~ few years for HBB / Bob & Mark Wendy to make that much profit. //

- (e) Explain why the calculation of fixed and variable costs is vital to the success of HBB. In your answer, include:

- what their fixed and variable costs are
- the risk(s) Bob and Wendy face if HBB's revenue does not cover the fixed costs.

The fixed cost for HBB is \$43550 per year where their variable cost is \$35.00

Bob and Wendy may face huge debt if they don't cover the fixed cost because they might then ~~be~~ take loan from bank to cover the fixed cost for the year because it will mean that they won't be making any profit for the year. //

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## QUESTION TWO

- (a) Complete the cash budget below for *Hexton Bed and Breakfast (HBB)*, showing the receipts and payments for December 2014 (31 days), January 2015 (31 days), and February 2015 (28 days).

### Hexton Bed and Breakfast Cash Budget

	December	January	February
<b>Receipts</b>			
Cash	800	800	300
Accounts receivable (tour operators)	—	—	—
<b>TOTAL RECEIPTS</b>	800	800	300
<b>Less payments</b>			
Mortgage principal and interest	1005	1005	1005
Insurance	250	250	250
Other operating expenses	429	429	429
Vehicle expenses	434	434	434
Repairs and maintenance	300	300	300
Drawings	1000	1000	1000
Breakfast costs	620	620	560
Cleaning costs	3720	3720	3360
<b>TOTAL PAYMENTS</b>	7758	7758	7338
Surplus (deficit) of cash	(6958)	(6958)	(7038)
Opening bank balance	2000	—	—
Closing bank balance	(8958)	(6958)	(7038)

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(7038)

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Bob and Wendy have been informed that March and April are the least popular months of the year for tourists visiting Queenstown.

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- (b) Explain the reasons why Bob and Wendy's bank manager told them to prepare a detailed cash budget for the months of December, January, and February. In your answer, include:
- the purpose of preparing the cash budget, supported by information from your cash budget on page 4
  - a business decision that Bob and Wendy could make from the cash budget to assist the HBB cash position for the months of March and April.

The purpose of preparing the cash budget is to determine the inflows and outflows of cash per month. To see whether the business is operating on a surplus or deficit.

The cash budget for month of December, January and February show that ~~both~~ all three months of the year, the business operates at deficit meaning the business are not making any profit. As far as the Tour operators (Accounts receivable) they don't get any money from that. Having a record of cash budget per month will determine

whether the business is operating up to standard or not.

It will help the owners Bob and Wendy to see what they can do to boost up the business in order customers are willing to come & stay at the Hotel.

dp

A3

### QUESTION THREE

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Recommend whether or not Bob and Wendy should sell up in Auckland and move to Roxburgh to start their own business, *Hexton Bed and Breakfast (HBB)*.

In your answer, you should provide detailed and justified reasons for your recommendation.

This should consist of:

- an introduction that includes a clear statement of your recommendation
- a main body consisting of reasons explaining your recommendation
- a justified conclusion.

Your answer should expand on the resource information, and must include:

- relevant calculations from Question One and Question Two, and any other calculations you consider important to help Bob and Wendy understand the key issues in making this decision
- both financial and non-financial information that shows understanding of the difference and importance of these two terms in decision-making.

Bob and Wendy should not sell their house up in Auckland and move to Roxburgh to start their own business, Hexton Bed and Breakfast (HBB).

The reason why they shouldn't move down to Roxburgh because their business will not operate as they are will want it to because their ~~are~~ they will not be making profit and may end up paying debts or borrowing from banks.

Bob and Wendy should rather consider staying in Auckland and working because it would be not be too stressful for them, as for their age because if they do consider moving to Roxburgh they will be too stressed due to everyday problems that they might be facing. Moving to Roxburgh for them would mean more expenses than before because they will be travelling more than they expected.



For example owing a Hotel For Bob and Wendy would mean that they will be busy all the time doing / cleaning up or doing maintenance for themselves for the Hotel. Because at the start ~~thats~~ of December and January all the 8 units were fully booked out while when February came it cut down to only 3 unit rooms were booked out, because, december and January are the only times when most people have holidays and that's when they go on holidays - ~~But~~

NF

But for the rest of the year from February to November business will be running low and ~~to~~ Bob and Wendy might end up paying from their pocket. Even though Roxburgh is only 90 minutes by car from Queenstown people otherwise wouldn't want to drive ex - unless they are on long break - and people only get long breaks during the month of December and January.

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Bob and Wendy would be better off staying in Auckland because they will be able to enjoy themselves unlike in Roxburgh ~~they~~ if they are dependent on the income they get from renting out units.

A3

Not Achieved exemplar for AS 91408 2015			Total score	06
Q	Grade score	Annotation		
1	<b>NO</b>	a) Incorrect calculation b) The concept is not described c) Incorrect calculation d) Answer provided is incorrect because it is based on incorrect data. e) Fixed and variable costs are not described and no 'risk' outcome is given.		
2	<b>A3</b>	a) 9/19 calculations correct b) A purpose of the budget is described but there is no business decision outlined.		
3	<b>A3</b>	A recommendation is stated. Only non-financial ideas are provided.		