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91408



NEW ZEALAND QUALIFICATIONS AUTHORITY
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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.

Achievement

TOTAL

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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.

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.

$$43550 \div (100 - 35) = 670$$

Break-even 670 rentals (total number of unit rentals per year)

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

For *HBB*, break-even units mean that at that number of unit of rentals, the total revenue of *HBB* is equal to its total costs. Therefore they know how ^{many} ~~much~~ rentals are ~~req~~ required to make no loss.

- (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.

$$(105170 + 43550) \div (100 - 35) = 2288 \text{ days}$$

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

\$ 2288 ^{days} rental

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

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This target rental is not achievable for HBB. For only rent out one unit and targeting a profit of \$105170, HBB would require 2288 days to do so. As there ^{are} only 365 days in a year, 2288 days ~~x~~ are an not achievable target for HBB.

(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.

Fixed costs are the costs that does not change while the actual output change until the relevant range.

Variable costs are costs that relate to the actual ~~inputs~~ rental ~~to~~ that HBB made.

If HBB's revenue does not ~~x~~ cover the fixed costs, ~~they~~ Bob and Wendy will make a deficit and ~~they~~ may not able to pay any unexpect expenses. This is harmful for the future and current operating.

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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
Receipts			
Cash	13104 14508	13104 14508	4914
Accounts receivable (tour operators)		1310 1450.8	1612
TOTAL RECEIPTS	14508	15958.8	6526
Less payments			
Mortgage principal and interest	(1005)	(1005)	(1005)
Insurance	(250)	(250)	(250)
Other operating expenses	(429)	(429)	(429)
Vehicle expenses	(217)	(217)	(217)
Repairs and maintenance	(300)	(300)	(300)
Drawings	1000	1000	1000
Breakfast costs	(20) (4960)	(4960)	(1680)
Cleaning costs	(3720)	(3720)	(1260)
TOTAL PAYMENTS	(11881)	(11881)	(6141)
Surplus (deficit) of cash	2627	4077.8	385
Opening bank balance	2000	4627	870 8704.8
Closing bank balance	4627	8704.8	9089.8

9089.8

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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 show the expect surplus or deficit to Bob and Wendy in order to help them make business decision. As can be seen, HBB is expected to have a final surplus of \$9089.8 at the end of February.

As March and April are the least popular months of the year, HBB may ~~not~~ make deficit during these months. HBB could make an arrangement with bank to apply for a bank overdraft. Therefore while their surplus ~~is~~ of approximately \$9089.8 at the end of February ^{may able} to cover their deficit, they still have the capacity to meet any unexpect expenses during the time.

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QUESTION THREE

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.

I recommend that Bob and Wendy should move to Roxburgh to start their own business.

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The total number of unit rentals per year to break even is only ~~675~~ 670 which means that HBB only need 2 rentals per day to break even or even earn profit. This is an achievable target for HBB.

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The activities available in the region are ^{becoming} increasingly popular which means that their potential guests are increasing as well. Bob and Wendy can expect their number of rentals to increase in the future.

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As HBB ~~still~~ have the ~~to~~ mortgage, the business can still make a ~~per~~ profit per month. Therefore they can expect their revenue to increase more after repay the mortgage and the region become more popular.

Bob and Wendy may be required a large cash outflow to

set up their business. However, if they sell their house, their mortgage ^{will be} lower than their ~~house in~~ current mortgage

Therefore, because of the reasons I listed above, I recommend Bob and Wendy to sell up in Auckland and move to Roxburgh to start their own business. ✓

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Achieved exemplar for AS 91408 2015			Total score	11
Q	Grade score	Annotation		
1	A3	<ul style="list-style-type: none"> a) Correct calculation b) The concept is described in context c) Correct calculation (but not for E7 and E8 as it has not been converted to one unit) d) The student has misinterpreted the question. The average rental to achieve the profit should be divided by eight units e) Both concepts are not explained sufficiently to describe their meaning and the 'risk' to the owner is not clearly outlined. 		
2	A4	<ul style="list-style-type: none"> a) 11/19 correct calculations b) A purpose for the budget was provided linking the cash position to assisting business decisions. An attempt was made at explaining a business decision. This was not suitable to the cash position of the business as they were in surplus. 		
3	A4	<p>A recommendation is stated.</p> <p>Ideas, both financial and non-financial, were stated but not explained in enough detail providing relevant supporting evidence.</p> <p>One non-financial idea was linked to relevant evidence from the case study</p>		