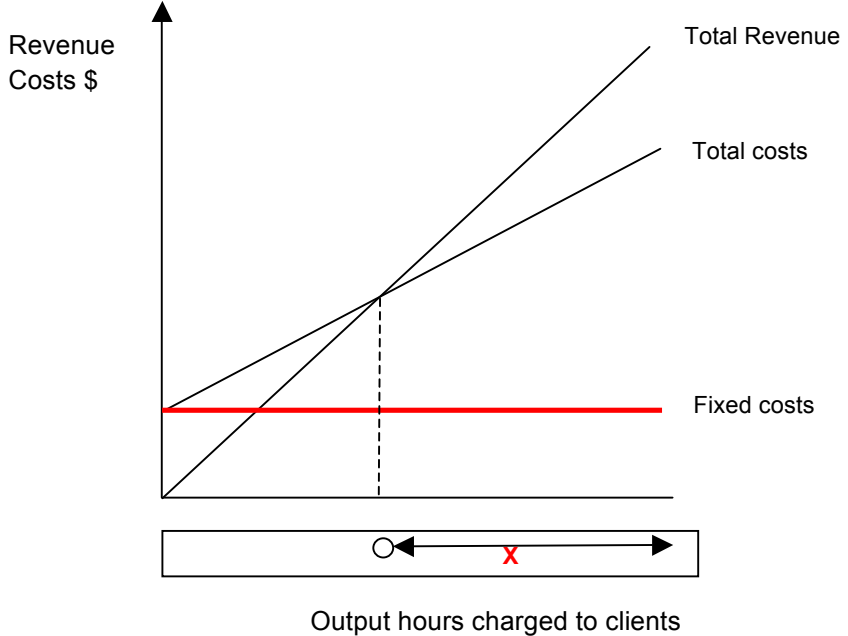


Assessment Schedule – 2014

Accounting: Demonstrate understanding of management accounting to inform decision-making (91408)

Evidence Statement

Question	Expected coverage
<p>ONE (a) (i)</p>	 <p>Margin of Safety 'X' acceptable between the two arrows (but 'X' placed <u>on</u> the break-even point is not acceptable. Draws fixed cost curve on diagram <i>AND</i> labels appropriately. Note: Break-even Point identified <u>not</u> necessary</p>
<p>(ii)</p>	<p>The relevant range is the output possible given <i>Mack's Mechanical Maintenance Ltd's</i> current resources. Current resources for Mack relate to machinery, workshop space, hours available for labour (50 hours a week), and Mack's skillset. The output is the number of jobs he is able to complete and charge to clients (ie hours chargeable). Within the relevant range, fixed costs remain constant. This means that no matter how many jobs Mack manages to charge out, fixed costs remain the same, as shown by a horizontal line drawn on the diagram. If he closes the workshop for a week's holiday, he will still have to pay his fixed costs (such as workshop rental). Answers must be in context – that is, includes an example(s) as outlined above.</p>
<p>(b)</p>	<p>Places an 'X' on the diagram to indicate margin of safety. The margin of safety is the extent by which a business's sales (production) exceed break-even sales (production). On the diagram, this is the distance between X and the intersection point of Revenue and Costs is the Margin of Safety. The further away from this point, the larger is the Margin of Safety. It tells a business how much sales (production) can fall by before the business ceases to make a profit.</p>
<p>(c) (i)</p>	<p>Contribution margin = selling price – variable costs = \$60 – \$6 = \$54 Break-even = Fixed costs / (Selling Price – Variable cost) OR Contribution margin</p> <p>(ii) Fixed costs calculation: Rental \$16 560 + Communications \$3 120 + Subscription \$840 + Depreciation \$200 + Office wages \$8 400 + WOF audit fee \$850 = \$29 970 Break-even = \$29 970 / 54 = 555 hours Accept follow through from (c)(i) ONLY where there is clear evidence of the correct formula and it is just a calculator error, for example, FC / CM = 29 970 / 54, which equals a number that is not 555.</p>

(d)	<p>Break-even is where total revenue intersects total costs. This point is where costs and revenues are equal and no losses or profits are being made.</p> <p>If Mack is able to charge out jobs in excess of break-even point of 555 hours, Mack will be able to make a profit.</p> <p>The further away from break-even, the higher the profit for <i>Mack's Mechanical Maintenance Ltd</i>.</p> <p>Answer must be in context – it needs to state 555 hours (or follow through from (c) (ii)).</p>
(e)	<p>Strategic decisions are those designed to assist <i>Mack's Mechanical Maintenance Ltd</i> meet its long-term objectives (such as providing a more efficient service to customers or being more cost-effective so the customers get a better pricing deal or to improve Mack's profit (reward for his investment, skills, risk and work effort), which will impact over more than one accounting period.</p> <p>Candidates may also discuss size of initial cost and need for Board approval. <i>MMM Ltd</i> is a small business that will not have a Board.</p> <p>Note: reference to Board/CEO is not considered in context for this type of business</p> <p>Evidence for Merit and Excellence will reflect this application of knowledge to the context.</p> <p>Purchase of a diagnostic scanner is a strategic decision because it will allow Mack to more accurately determine what is wrong with a motor. Currently, he would have to guess (using his skill and experience) or take the vehicle to someone else's scanner. The purchase of the scanner means that Mack can more quickly get to solve the problem, which would enable him to reduce his cost to the client and/or improve his profit margin on the job.</p> <p>The initial cost of \$7 000 will mean longer-term borrowing of some sort and repayment over time. The machine requires additional outlays each year to ensure it continues working at maximum efficiency. The machine will be used for some time into the future to produce economic benefits for <i>MMM Ltd</i>. So the purchase will impact <i>MMM Ltd</i> for more than one accounting period.</p> <p>Answer must be in context.</p>

Not Achieved	N1	Any TWO answers – need <u>not</u> be in context, eg fixed costs do not vary with output.
	N2	Any THREE answers – need <u>not</u> be in context
Achievement	A3	<p>Any FOUR of the following:</p> <ul style="list-style-type: none"> • fixed costs correctly drawn on graph <i>AND</i> labelled • margin of safety correctly drawn on graph • correct calculation of contribution margin per hour • correct calculation of break-even in hours • describes relevant range in context • describes fixed costs in context • describes break-even point in context • describes a strategic decision in context.
	A4	<p>Any FIVE of the following:</p> <ul style="list-style-type: none"> • fixed costs correctly drawn on graph <i>AND</i> labelled • margin of safety correctly drawn on graph • correct calculation of contribution margin per hour • correct calculation of break-even in hours • describes relevant range in context • describes fixed costs in context • describes break-even point in context • describes a strategic decision in context.
Merit	M5	<p>MUST HAVE TWO of the following:</p> <ul style="list-style-type: none"> • contribution calculated <i>OR</i> break-even calculated • break-even explained in context • fixed costs described in context • relevant range described in context <p>AND ANY ONE of the following:</p> <ul style="list-style-type: none"> • explains strategic decisions <i>AND</i> links to long-term goals and objectives of <i>MMM Ltd</i> • links fixed costs <i>AND</i> relevant range in context of <i>MMM Ltd</i> • labels <i>AND</i> describes margin of safety for <i>MMM Ltd</i>.

	<p>M6</p>	<p>MUST HAVE TWO of the following:</p> <ul style="list-style-type: none"> • contribution margin <i>OR</i> break-even calculated • break-even explained in context • fixed costs described in context • relevant range described in context <p>AND ANY TWO of the following:</p> <ul style="list-style-type: none"> • explains strategic decisions <i>AND</i> links to long-term goals and objectives of <i>MMM Ltd</i> • links fixed costs <i>AND</i> relevant range in context of <i>MMM Ltd</i> • labels <i>AND</i> describes margin of safety for <i>MMM Ltd</i>.
<p>Excellence</p>	<p>E7</p>	<p>MUST HAVE ALL THREE of the following:</p> <ul style="list-style-type: none"> • contribution margin calculated <i>AND</i> break-even calculated • break-even explained in context • fixed costs described in context <i>AND</i> relevant range described in context <p>AND ANY TWO of the following:</p> <ul style="list-style-type: none"> • labels and describes the margin of safety in the context of <i>MMM Ltd</i> • links fixed costs <i>AND</i> relevant range in context of <i>MMM Ltd</i> • links strategic decision to realistic long-term goal or objective for Mack • justifies the choice in (e) as a strategic decision (not a routine decision).
	<p>E8</p>	<p>MUST HAVE ALL THREE of the following:</p> <ul style="list-style-type: none"> • contribution margin calculated, break-even calculated • break-even explained in context • fixed costs described in context <i>AND</i> relevant range described in context <p>AND ANY THREE of the following:</p> <ul style="list-style-type: none"> • labels and describes the margin of safety in the context of <i>MMM Ltd</i> • links fixed costs <i>AND</i> relevant range in context of <i>MMM Ltd</i> • links strategic decision to realistic long-term goal or objective for Mack • justifies the choice in (e) as a strategic decision (not a routine decision) <p>Comprehensive coverage required.</p>

N0 = No response; no relevant evidence.

Question	Expected Coverage				
TWO (a)	Mack's Mechanical Maintenance Limited – Cash Budget				
		June	July	August	
	Receipts				
	Repair fees received	9 000	9 000	6 750	CCC
	Transfer from personal bank account	1 160	310	2 335	CCC
	Total receipts	10 160	9 310	9 085	
	Less payments				
	Workshop rental	1 380	1 380	1 380	V
	Communication	260	260	260	V
	Subscription to MTA	70	70	70	VVV
	WOF audit fee	850			V
	Office wages	700	700	700	VVV
	Other variable expenses	900	900	675	CCC
	Drawings	6 000	6 000	6 000	
	Total payments	10 160	9 310	9 085	
	Surplus / (deficit) of cash	0	0	0	
	Opening bank balance	(10 000)	(10 000)	(10 000)	
Closing bank balance	(10 000)	(10 000)	(10 000)		
Marking codes: <ul style="list-style-type: none"> • V must be correct figure • C correct calculation • F non – cash, i.e. depreciation. One F for each of the three figures. This will preclude E and high M grades 					

<p>(b)</p> <p>P</p> <p>(Purpose)</p> <p>S</p> <p>(Strategy)</p> <p>L</p> <p>(Linking)</p>	<p>A cash budget allows Mack to plan for any shortfalls in cash by increasing income, reducing his expenditure, or arranging to transfer funds from his personal savings account.</p> <p>Managing this process well means that Mack incurs minimum interest on his overdraft, leaving him to spend his money more wisely on other things.</p> <p>Perhaps the most important thing about a budget is that it is part of a process. As time passes, real data need to be compared with expected data and differences need to be carefully explained. Budgets drive future action. They change what a business manager does in the future as they strive to be more successful (ie more efficient for their client and /or more profitable and /or grow their businesses).</p> <p>The preparation of the Cash Budget in the present forces Mack to analyse his current and past position, which will enable him to estimate what his income and payments will be and when he will receive them in the future.</p> <p>Because Mack operates a business overdraft, it is very important that he maintains a good relationship with his bank and ensures that he does not overspend, forcing the bank to dishonour / 'bounce' his cheques and charge him dishonour fees (which would increase his overspending further).</p> <p>Many businesses in this situation try to cut costs, but a better suggestion is to try to improve the level of income.</p> <p>Mack charges no mark-up on parts. He should consider charging to do this, if for no other reason than to cover the cost of collecting the parts as required, and processing and paying the resultant account payable OR Mack could raise his hourly rate to customers.</p> <p>Mack could hire an apprentice, which will increase fees received.</p> <p>Adding a mark-up on to any part required means that <i>MMM Ltd</i> will be receiving more money from customers for its repair fees received, which may reduce the amount of capital that Mack has to transfer from his personal bank account, which may ultimately begin to reduce the overdraft of <i>MMM Ltd</i> OR an increase in his hourly rate to customers which increase his repair fees received.</p> <p>The apprentice will increase the number of chargeable hours, which will increase the repair fees received. This may mean that Mack could start to reduce his overdraft and reduce the amount of capital he has to transfer from his personal bank account.</p> <p>NB</p> <p>*Candidates may comment that taxation has not been accounted for.</p> <p>This is not expected but would count as evidence for Merit and Excellence.</p> <p>*It would NOT be relevant to reduce drawings as his current annual income of \$72 000 is less than his previous earnings of \$78 000. Exception is if it is fully evaluated, for example, the data is referenced to explain Mack taking less drawings because he is investing back into a new developing business.</p>	
<p>Not Achieved</p>	<p>N1</p>	<p>4 V or C</p>
	<p>N2</p>	<p>6 V or C</p>
<p>Achievement</p>	<p>A3</p>	<p>(a) 7 V or C (b) not needed.</p>
	<p>A4</p>	<p>(a) 8 V or C (b) answer includes purpose of a cash budget and some reference to the source data</p>
<p>Merit</p>	<p>M5</p>	<p>(a) 9 V or C (b) answer explains the purpose of a cash budget for Mack with appropriate reference to improve the cash position with example(s) of business strategy (ies)</p>
	<p>M6</p>	<p>(a) 11 V or C AND NO F (b) answer explains the purpose of a cash budget for Mack with appropriate reference to improve the cash position with example (s) of business strategy(ies)</p>
<p>Excellence</p>	<p>E7</p>	<p>(a) 14 V or C AND NO F (b) answer evaluates how the cash budget can be used to estimate the effect of a new business strategy on improving the cash position of <i>MMM Ltd's</i> by referring to specific items in the budget</p>

	E8	<p>(a) 16 V or C AND NO F</p> <p>(b) answer evaluates how the cash budget can be used to estimate the effect of a new business strategy on the cash position of <i>MMM Ltd</i> by referring to specific items in the budget AND the understanding that the overdraft must be carefully managed with the bank.</p> <p>Comprehensive coverage required.</p>
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N0 = No response; no relevant evidence.

Question	Expected coverage
THREE	<p>Evidence depends on candidates' other answers and recommendation. Below are ideas only. Candidates will produce a wide variety of ideas that should be considered in context.</p> <p>Candidate's evaluation is in context of <i>MMM Ltd</i>, and justifies the recommendation using all the information provided, linking financial (F) and non-financial (NF) information.</p> <p>Should take on apprentice</p> <p>Financial information:</p> <ul style="list-style-type: none"> • Jobs requiring less skills can be delegated to the apprentice, which will cost <i>MMM Ltd</i> \$15 an hour while being charged out at \$60 per hour, so profit per hour charged will be great for each job • The apprentice will allow <i>MMM Ltd</i> to take on more work (grow the business), which will generate more revenue and more profit for the owner, Mack. • The apprentice will take on work that Mack had previously done, releasing him to work on expanding his business. He can build up more contacts, generate more revenue, and therefore, get more profit. <p>Non-financial information:</p> <ul style="list-style-type: none"> • If a family emergency occurs, Mack has no one to fall back on to keep his business running. • The responsibility of training an apprentice means that Mack will have to ensure that he keeps up-to-date. The apprentice will bring back ideas from his training, which will ensure this. Not only will Mack be building capacity for his trade in the future through the new apprentice, but he will be ensuring that he continues to produce work of high quality also • Producing high-quality work and taking the responsibility to train skilled tradespeople of the future makes our economy healthier which, in turn, means that everyone is better off. <p>Should not take on apprentice</p> <p>Financial information:</p> <ul style="list-style-type: none"> • When Mack was an employee, he took home \$6 500 after tax and had no additional responsibilities (apart from the duty to provide his best work in the most efficient manner). His drawings are already less than this and may be even smaller still if he has to pay apprentice wages and cannot generate additional profit. Now that he runs his own business, he takes home only \$6 000 a month. In order to maintain his overdraft at the required level, he is currently having to put some of that money back (eg \$310 of the \$6 000 had to be returned to his business bank account in July). • Mack has the difficult job of charging people to pay only for his work, as he did not add a mark-up on any part required for the car repair or charging the customer the cost of collecting the part. With an existing bank overdraft and a young family to support, Mack cannot allow himself to be too kind. His comments about covering costs for the apprentice indicates that he has not learned this lesson as yet. • Any improvements Mack makes to his business increase the benefits to Mack at the moment. With more staff, he has greater costs and greater responsibilities. <i>MMM Ltd</i> is already in overdraft and may not have sufficient cash to pay the additional \$1 140 costs of hiring an apprentice as well as their wages. <p>Non-financial information:</p> <ul style="list-style-type: none"> • Mack, as sole shareholder for <i>MMM Ltd</i>, has considerable responsibilities already that he would not have had as an employee. In the past, office staff would have prepared and posted invoices relating to his work. Someone else would have worried about whether the client paid or not. Someone else would have ensured that the bills (such as communication costs) were paid on time. Now, all these responsibilities are his, PLUS he will need to worry about generating enough work to keep the apprentice busy. • It is likely that he is working longer hours; and if a promise is made to complete a job, he will have to stay to finish it or risk losing future business with the client. Initially at least, the apprentice will need constant supervision. It may be that he creates more work for Mack and not less. • If he has a new idea, he can try it right away. He does not have to discuss it and get the agreement of others in order to implement it. • In order to maintain his licence to issue Warrants of Fitness, Mack has to maintain high standards. When he does all the work, he can be sure that this happens.

Not Achieved	N1	BOTH: <ul style="list-style-type: none"> describes a recommendation, but lacks context in relation to <i>MMM Ltd</i> attempts examples but demonstrates no real understanding of the nature of the business.
	N2	BOTH: <ul style="list-style-type: none"> describes a recommendation, but lacks context in relation to <i>MMM Ltd</i> uses AT LEAST ONE example but demonstrates little understanding of the nature of the business.
Achievement	A3	ALL of: <ul style="list-style-type: none"> describes ONE recommendation in the context of <i>MMM Ltd</i> states ideas but does not explain them uses ONE relevant example. eg Mack is now able to spend more time with his family.
	A4	ALL of: <ul style="list-style-type: none"> describes ONE recommendation in the context of <i>MMM Ltd</i> states ideas but does not explain them uses AT LEAST TWO relevant examples. eg Mack is now able to spend more time with his family.
Merit	M5	BOTH: <ul style="list-style-type: none"> explains a recommendation in the context of <i>MMM Ltd</i> rather than evaluates links are made between items of financial information relevant to <i>MMM Ltd</i> OR links are made between items of non-financial information relevant to <i>MMM Ltd</i>. At least ONE explanation of financial OR non-financial information eg Mack is now able to spend more time working on his business and will be able to develop plans that will attract more clients. This will improve his cash flow and his profit margin.
	M6	BOTH: <ul style="list-style-type: none"> explains a recommendation in the context of <i>MMM Ltd</i> rather than evaluates links are made between items of financial information relevant to <i>MMM Ltd</i> OR links are made between items of non-financial information relevant to <i>MMM Ltd</i>. At least TWO explanations of financial OR non-financial information eg Mack is now able to spend more time working on his business and will be able to develop plans that will attract more clients. This will improve his cash flow and his profit margin.
Excellence	E7	Candidate explains in context of <i>MMM Ltd</i> , and justifies the recommendation using almost all the information provided, linking financial and non-financial information. (See evidence) At least THREE explanations including at least one financial and non-financial item of information.
	E8	Candidate comprehensively explains in context of <i>MMM Ltd</i> , and justifies the recommendation using most of the information provided, linking financial and non-financial information. (See evidence) At least THREE explanations, including at least one financial and one non-financial item of information.

Cut Scores

	Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
Score range	0 – 8	9 – 14	15 – 18	19 – 24