

Assessment Schedule – 2021**Accounting: Demonstrate understanding of management accounting to inform decision-making (91408)****Evidence**

Q1	Sample evidence		
(a)	$\text{Breakeven} = \$1\,095\,000 / (\$400 - \$100)$ $= 3\,650 / 365$ $= 10 \text{ visits per day}$	Calculate	C for correct figure
(b)	<p><i>ABFG</i> will have fixed costs that remain unchanged regardless of the level of output. Variable costs will be linked to the level of production / number of pet visits. The costs per month for lease of software will be the same, regardless of how many patients the vet clinics treat. This means that lease of software is a fixed cost over the relevant range of current service levels, as it remains unchanged. Inventory is a variable cost as the cost will be linked to how many patients the clinics are serving and the nature of the services required.</p> <p>With a large number of patients, their owners may purchase more pet toys, food, and other off-the-shelf treatments while they are waiting in reception for their consultation with a vet. The more patients, the more surgical procedures vets will complete, requiring more drugs and surgical supplies. So, as the level of service required increases, the level of cost of provision of the service will rise also.</p>	Describe Explain	Dc E
(c)	$\$2\,000\,000 / \$400 \text{ per visit} = 5\,000 \text{ visits per year}$ $\text{Number of visits per day} = 5\,000 / 365$ $\text{Rounded} = 14 \text{ visits per day}$	Calculate	C
(d)	$\text{Margin of safety} = \text{current sales} - \text{BE sales}$ $= 5\,000 - (10 \times 365)$ $= \text{Margin of safety in vet consultations (visits per year) for Main Clinic}$ $= 1\,350 \text{ visits per year}$ <p>Allow other logical methods of calculation and rounding difference in answer.</p>	Calculate	C
(e)	<p>Margin of safety is the difference between the actual level of service (number of consultations / vet procedures) and the level of service required for Main Clinic to break even (where total revenue equals total costs).</p> <p>At breakeven, total costs are exactly covered by total revenue. Beyond the point of breakeven (3 650 visits per year or 10 visits per day), <i>ABFG</i> starts tracking towards meeting Fergus's profit target. The bigger the gap, the more likely it is that Fergus will be happy with the return that he receives for investing in his business.</p> <p>A weekly comparison of actual level of service to breakeven level of service would be more useful to Fergus because this allows him and his staff to make decisions that will change future outcomes quickly. Should the margin of safety decline, they can brainstorm to develop strategies to improve the size of the margin, e.g. advertise (local radio), arrange visits to schools, use social media (such as Facebook, Twitter, Instagram), sponsor activities involving healthy pets (e.g. a Pet Day at a local park) to improve the community's awareness of the services on offer.</p>	Describe Explain Justify	Dc E J

(f) Profit targets are used to estimate the level of sales/service provision required to ensure a specific level of profit. The profit target calculation is fixed costs plus profit target divided by contribution margin. $\text{Profit target} = \$1\,095\,000 + 480\,000 / (\text{SP } \$400 - \text{VC } \$100) = 5\,250 \text{ visits per annum.}$ Fergus invests time, capital, and skills into his business. It involves risk. He expects a reasonable return. (In this case, he has set a target of \$480 000 per annum.) Setting the profit target helps him to ensure that his business has goals to aim for. If his target of an estimated 14 visits per day is not reached, he will not be receiving a reasonable return on his investment, and he needs to make decisions to ensure that he does. If components of his business change, Fergus needs many different types of trigger points to quantify and qualify this change. For example, during lockdown during the COVID-19 pandemic, it would have been very obvious that the number of visits by customers was not meeting profit targets. Fergus would need to make decisions regarding this. This might include closing his business and using his knowledge and skills in another way. It might include changing the way he runs his business or reducing staff numbers.	Describe	Dc
	Calculate	C
	Explain	E
	Justify	J

A3	A4	M5	M6	E7	E8
C Dc ONE correct calculation C from (a), (c), (d), (e), or (f) <i>AND</i> Describes in context (Dc) ONE management accounting element (fixed costs, variable costs, margin of safety, profit target using CVP).	C x 2 Dc x 2 TWO correct calculations from (a), (c), (d), or (e) <i>AND</i> Describes in context TWO management accounting elements (fixed costs, variable costs, margin of safety, profit target using CVP).	C x 2 E x 2 TWO correct calculations from (a), (c), (d), or (e) <i>AND</i> Explains in context ONE management accounting element (fixed costs, variable costs, margin of safety, profit target using CVP).	C x 3 E x 3 THREE correct calculations from (a), (c), (d), or (e) <i>AND</i> Explains in context TWO management accounting elements (fixed costs, variable costs, margin of safety, profit target using CVP).	C x 3 E x 2 J THREE correct calculations (C x 3) from (a), (c), (d), or (e) <i>AND</i> Explains in context (E x 3) ALL management accounting elements (fixed costs, variable costs, margin of safety, profit target using CVP). <i>AND</i> Justifies explanations (J) by linking the terms fixed and variable costs (b), margin of safety (e), or profit targets (f) to impacts on Fergus's business now and / or in the future.	C x 4 E x 2 J x 2 FOUR correct calculations (C x 4) from (a), (c), (d), or (e) <i>AND</i> Explains in context (E x 3) ALL management accounting elements (fixed costs, variable costs, margin of safety, profit target using CVP). <i>AND</i> Justifies explanations (J) margin of safety (e), or profit targets (f) to impacts on Fergus's business now and / or in the future. <i>AND</i> The candidate's explanation is well-balanced, logical, and perceptively linked to the realities of the case study scenario.

N0 = No response; no relevant evidence.

N1 = Any ONE answer – need **not** be in context.

N2 = Any TWO answers – need **not** be in context.

Question TWO

(a)

ANIMAL'S BEST FRIEND GROUP Schedule of receipts January–March

MONTH	TOTAL	EFTPOS	CREDIT	JANUARY	FEBRUARY	MARCH	
November	130 000		13 000	1 950			E
December	180 000		18 000	14 400	2 700		E
January	200 000	180 000	20 000		16 000	3 000	E
February	210 000	189 000	21 000			16 800	E
March	250 000	225 000	25 000				M
				16 350	18 700	19 800	

ANIMAL'S BEST FRIEND GROUP Cash Budget for the three months ended March 2022

	January	February	March	
Receipts				
Cash from EFTPOS fees received	180 000	189 000	225 000	Vf
Cash from accounts receivable	16 350	18 700	19 800	Vf
TOTAL RECEIPTS	196 350	207 700	244 800	
Less payments				
Salaries (vets)	60 000	60 000	60 000	V
Wages (office and vet nurses)	20 000	21 000	25 000	M
Lease of premises	7 000	7 000	7 000	V
Lease of equipment	12 000	12 000	12 000	V
Lease of software	650	650	650	V
Purchases of inventory	36 000	40 000	42 000	M
General expenses	10 000	10 500	12 500	M
Purchase of new vehicle			40 000	M
Drawings	40 000	40 000	40 000	M
GST payable		30 000		V
TOTAL PAYMENTS	185 650	221 150	239 150	
Surplus (deficit) of cash	10 700	(13 450)	5 600	E for correct number and process OR M for a number and correct process.
Opening bank balance overdrawn	(5,000)	5 700	(7 750)	
Closing bank balance	5 700	(7 750)	(2 100)	

(b)	<p>For <i>ABFG</i>, relevant range is the maximum level of production (provision of service) that is available given the existing resources of the business. Candidate may discuss the idea that relevant range extension would require an addition to fixed costs.</p> <p>The purpose of a cash budget is to estimate cash receipts and cash payments for a period into the future, linking to the impact on the <i>ABFG</i> bank account balance for the period. It enables business to plot cash-flow movements and allows them to prepare for additional finance requirements.</p> <p><i>(Note: Discussion needs to be in advance, even at 'describe' level, of a Level 1 Accounting definition of the purpose of a cash budget. This AS expects a link to business decision-making. Stating the cash receipts and cash payments is not, in itself, decision-making. Any description needs to include what this statement of estimations is used for in the business context.)</i></p> <p>To get 'explain', the candidate needs to apply the relevant range and the cash budget to the context, using 'because' or similar.</p> <p>For example:</p> <p>The relevant range for <i>ABFG</i> (i.e. the level of service they can deliver) depends on the number of vets available (three at Main Clinic and one at Branch Clinic) to see clients and the associated facilities available to deliver health services to pets. The operating facilities will limit the number of operations possible. Outside of these limits, the vet clinics will have to refer clients to other vets.</p> <p>The cash budget is prepared based on estimated receipts and payments, calculated based on the relevant range that applies in the months being budgeted for. A change to the relevant range for the business will need to be incorporated into calculations for the cash budget.</p> <p>Justification involves linking information to realistic implications of the cash budget usage for decreasing or increasing relevant range. The answer has to include an understanding of 'what happens next', i.e. the implications the use of a cash budget to assist with the impact of changing the relevant range for <i>ABFG</i>.</p> <p>For example:</p> <p>The cash budget shows Fergus that <i>ABFG</i> is making a cash surplus for January of \$10 700. The strain on cashflow comes in February, when the GST payment is due of \$30 000, and in the following month, when Fergus intends to replace his vehicle, requiring a payment of a one-third deposit of \$40 000. Even with these two comparatively large payments, the bank overdraft returns to a level below the approved opening bank overdraft of \$5 000 by March.</p> <p>This means that <i>ABFG</i> is able to pay its day-to-day running costs (such as supplies, rent, and part-time wages), which ensures that the business can operate efficiently and produce a return to Fergus as owner of the business. It will require Fergus to contact his bank to ensure that they will cover the one-month shortfall in February, where his budgeted data suggest he is likely to exceed his overdraft by \$2 750. He will also need to consider the impact of the next GST payment, due in April.</p> <p>If he decides to change the relevant range of his business, for example closes Branch Clinic, from the point where this change occurs, cash receipts and cash payments will be reduced to account for the fact that Branch Clinic is no longer contributing to receipts and payments estimates.</p>	<p>D</p> <p>E</p> <p>J</p>
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A3	A4	M5	M6	E7	E8
<p>7 V, M, OR E</p>	<p>7 V, M, OR E</p> <p>Describes any relevant information in (b).</p>	<p>9 V, M, OR E AND no F</p> <p>Explains any relevant information in (b) relating to relevant range.</p>	<p>11 V, M, OR E AND no F</p> <p>Explains any relevant information in (b) relating to relevant range.</p>	<p>13 V, M OR E AND no F AND must include M OR E for closing bank balance.</p> <p>Justifies importance of relevant range AND establishes link to potential impact on cash budget, linking the use of cash budget.</p>	<p>15 V, M, AND E AND no F AND must include M OR E for closing bank balance.</p> <p>Justifies importance of relevant range AND establishes link to potential impact on cash budget, linking the use of cash budget.</p> <p>The candidate's explanation is well-balanced, logical, and perceptively linked to the realities of the case-study scenario.</p>
<p>N0 = No response; no relevant evidence. N1 = 4 grades N2 = 6 grades</p>					

Q3

Sample evidence

Marking codes

I = Idea	J = Justified link to information in context	F = Financial information	NF = Non-financial information
Fi and NFi are awarded to candidates who provide evidence of ideas only (NA or A grades).		FJ and NFJ are awarded to candidates who provide evidence of links to data, additional calculations using case study material, use of their own ideas outside the case study material, or consequences for the business.	

	Branch
Fixed costs	\$156 000 (using BE calculation $4 = x / (200 - 50) \Rightarrow FC = \600 per day meaning \$156 000 per annum (600 × 260 days Branch Clinic open only 5 days a week)
Selling price	\$200 per visit
Variable costs	\$50
Contribution margin	\$150 per visit
Breakeven per year	= 4 visits per day × 260 days = 1 040 visits per year
Days or hours per year	5 days per week for 52 weeks per year = 260 days

CVP for Main Clinic alone actual

Actual	
Fees	2 000 000
Less VC	500 000
Contribution margin	1 500 000
Less FC	1 095 000
Profit	405 000

CVP for Branch Clinic alone based on breakeven of 4 consults per day

Based on BE		260
Fees	208 000	1 040
Less VC	52 000	
CM	156 000	
Less FC	156 000	
Profit	0	

Below are examples of discussion only. Data provides other opportunities to argue potential change. Accept follow-through on calculations.

Recommendation (1): Should close Branch Clinic, reducing overall staff levels

Financial information: (F)

Main Clinic has a much higher contribution margin (what remains to pay the fixed costs and provide profit for Fergus) (\$300 per visit) compared to the Branch Clinic (\$150 per visit), i.e. Main Clinic makes a greater contribution towards fixed costs and profits.

Closure of Branch Clinic immediately reduces annual fixed costs by \$156 000 per annum. With only 25 km separating the two clinics, some customers may choose to continue with *ABFG*, bringing their pets over to Main Clinic (which has the bonus of being open 7 days a week, 52 weeks a year), so potentially, while fixed costs have decreased, cash receipts may not reduce by much.

Non-financial information: (NF)

Pets don't get sick on only weekdays. Customers need access to services 7 days a week, year-round. Rushing around with a sick cat, trying to find a vet that is open and easily available, is a significant marketing tool. This means concentrating on Main Clinic, open 7 days a week with full surgery options, is easier to sell to customers, and, therefore, grow this part of the business.

Operating from only one venue means a simpler business structure and possibly less stress for Fergus.

An issue with branch closure is loss of jobs. Owners find it difficult to make people redundant. However, it is possible that that staff could work in Main Clinic and not have to lose their jobs, given that it is only 25 km from Branch Clinic to Main Clinic.

Recommendation (2): Should hire new staff to expand Branch Clinic

Financial information: (F)

Although smaller, Branch Clinic still has a positive contribution margin (contributing \$150 per visit towards fixed costs and profit).

If Fergus can reduce his own workload, he may not need to reach the \$480 000 target profit he has set.

The cash budget information shows that, at least in the short term, there is need to manage cash available to the two clinics (February bank balance OD \$7 750 and March balance OD \$2 100).

Net cash inflow (outflow)	10 700	(13 450)	5 650
Opening bank balance	(5 000)	5 700	(7 750)
Closing bank balance	5 700	(7 750)	(2 100)

This challenge of cash management relates to two significant payments in two months (the car replacement and the GST payment). GST will be required again in April (two monthly), but Fergus may be able to postpone the vehicle purchase. Without the \$40 000 one-third instalment payment, the bank balance for *ABFG* would be \$37 900, and well able to cover any requirements for GST.

Given that all assets used by the clinics are leased (apart from the vehicle), the bank may have an issue extending additional overdraft facility due to lack of assets that can be used as security. Fergus may have to use his own personal assets as security and personally guarantee the payment of the overdraft (or loan). Increased borrowing is a financial decision.

No surgery is done at this clinic, so all consultations should be able to be 30 minutes or less, meaning that it is highly likely that Branch Clinic will exceed breakeven of 4 visits per day. With only 10 visits per day, there is the potential to make a profit of over \$1M because its fixed costs are comparatively low and the contribution margin is comparatively high. [Supporting calculations are possible].

Non-financial information: (NF)

An additional vet might come from a competing clinic, so will reduce overall competition in the vet services market.

An additional vet has the potential to reduce workloads in both clinics. With only 25 km separating the clinics, the new vet may be able to support shifts in both clinics.

A new vet may be able to bring in a new range of specialities, which will enhance the overall potential of *ABFG* to deliver the best service to its customers.

Having extra capacity means better service, which should encourage people to bring their pets to *ABFG* instead of the competition, growing the revenue of the business and improving the likelihood that Fergus will achieve his required rate of return.

An additional vet may mean that Fergus can take more holidays than before.

Main Clinic may already be at maximum capacity with the work it has, meaning any growth should be directed through Branch Clinic. Expanding Branch Clinic could extend the relevant range.

It is difficult to lay off staff in any business. Fergus, being in a service business, may find it difficult to close Branch Clinic out of loyalty to his staff who work there.

Explanation of 'justified'

Justification involves making sophisticated, insightful, and/or original responses to the context, integrated with accurate and relevant evidence.

Responses will typically incorporate in-depth thinking (insight, perception) about consequences of actions / decisions in the particular business context. It is expected that reasonable assumptions, (i.e. things not explicitly addressed in the case study information) about the unique nature of the business will be attempted and incorporated into the thinking about the decision-making process for the particular business context.

The evidence will show a logical, developed argument of the choices and likely outcomes for the business.

The evidence will be consistent with the recommendation.

A strong justification is likely to involve a well-balanced discussion incorporating elements of both financial AND non-financial information.

Accept any relevant/logical reasons.

A3	A4	M5	M6	E7	E8
<p>Describes a recommendation in context.</p> <p>States ideas but does not explain them. Does not use 'because' or 'what happens next'.</p> <p>Uses examples that show an understanding of financial AND non-financial information but does not necessarily clearly delineate what each one relates to.</p>	<p>Describes a recommendation in context.</p> <p>States ideas but does not explain them. Does not use 'because' or 'what happens next'.</p> <p>Uses examples that show an understanding of financial AND non-financial information.</p>	<p>Explains a recommendation in context.</p> <p>Uses examples, in context that show an understanding of financial AND non-financial information.</p> <p>Links (J) EITHER financial OR non-financial items of information to informed decision-making.</p> <p>Provides relevant supporting evidence, using data from case study and / or own calculations, e.g. fixed cost, contribution margin, CVP Profit Statement.</p>	<p>Explains a recommendation in context.</p> <p>Uses examples that show an understanding of financial AND non-financial information.</p> <p>Links (J) at least TWO explanations, including at least ONE financial AND ONE non-financial item of information, to informed decision-making.</p> <p>Provides relevant supporting evidence, using data from case study and own calculations, e.g. fixed costs for Branch, that shows broad understanding of the case study context.</p>	<p>Explains a recommendation in context.</p> <p>Uses examples that show an understanding of financial AND non-financial information.</p> <p>Links (J) at least THREE explanations, including at least ONE financial AND ONE non-financial item of information.</p> <p>Provides relevant supporting evidence, using data from case study and own calculations, e.g. fixed costs, that shows broad and insightful understanding of the case study context.</p>	<p>Explains a recommendation in context.</p> <p>Uses examples that show an understanding of financial AND non-financial information.</p> <p>Links (J) at least THREE explanations, including at least ONE financial AND ONE non-financial item of information.</p> <p>Provides relevant supporting evidence, using data from case study.</p> <p>Makes appropriate additional calculations to provide supporting evidence, e.g. calculation of fixed costs for Branch at breakeven, likelihood of exceeding breakeven targets, linking to other management elements such as relevant range, etc.</p> <p>Shows broad and insightful understanding of the two business opportunities. Shows evidence of thinking about consequences of business decisions.</p> <p>May include evidence such as:</p> <ul style="list-style-type: none"> • connections to other similar businesses • awareness of the business environment in which this business operates, showing connections between this and the context calculations and other evidence. <p>Uses report format and produces material that has a high level of literacy, with well-developed linked paragraphs.</p>

N0 = No response; no relevant evidence.

N1 = Describes a recommendation, but lacks context. Attempts examples but demonstrates no real understanding of the problem posed in the case study.

N2 = Describes a recommendation, but lacks context. States a reason for recommendation.

Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0 – 7	8 – 13	14 – 18	19 – 24