Sample Assessment Schedule

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

Evidence

(a)

The cost of expanding the factory and purchasing the machine, $720 000, is significant. It requires a large loan of $480,000 over two years costing $43 200 per year in interest (total $86 400). This would require directors' sign off and the preparation of a budget to ensure sufficient income will be generated to cover the interest cost and make repayment at the end of two years. The machine will expand production of the factory, long term, so will enable more output of aluminium dinghies, which are becoming more popular, in the future. The department managers have all contributed to the information needed to make this decision as it will have a long-term impact on *Alumnz Limited*.

(b)

10 000 − 5 500 = 4 500 (CM)	
13 500 ÷ 4 500 = 3	Break-even ___3___ aluminium dinghies per month

(c)

804 000 ÷ 12 = 67 000 +13 500 = 80 500 ÷ 4 500 = 17.89	
Rounded up to 18	___18___ aluminium dinghies per month

(d)

There are 18 or more dinghy sales each month in the high season so the company will be on track to meet the profit target, particularly if there are more sales than estimated in any of the months. In the low season, with only an average of 15 dinghies sold per month, the profit target would not be met, and any fewer sales than 15 on average would further put the target out of reach.

Across the whole year it is just possible to meet the profit target, which needs a total of 18 × 12 = 216 dinghies sold. With a total of 128 dinghy sales expected from September to February and 90 dinghy sales from March to August, 218 dinghy sales would be just sufficient to reach the profit target if expected sales were met. If in any of the month's sales were above the estimate, the profit target would be more secure, whereas if sales were below estimates the profit target would be less secure.

(e)

Credit sales in	Amount	October	November
August	120 000	22 800	
September	135 000	108 000	25 650
October	150 000		120 000
Total cash from credit sales		130 800	145 650

(f)

Alumnz Limited **Cash Budget**

	October	November
Estimated receipts		
Cash sales	50 000	57 500
Credit sales	130 800	145 650
Total estimated receipts	180 800	203 150
Estimated payments		
Raw materials	58 305	63 375
Direct labour	23 520	26 880
Factory overhead	24 000	27 600
Selling and distribution expenses	13 900	15 400
Interest on loan	3 600	3 600
Machinery	140 000	140 000
Total estimated payments	263 325	276 855
Surplus (deficit) of cash	(82 525)	(73 705)

(g)

Recommendation – Yes, purchase the machine

Financial information

The profit target can be met from current estimates (216 need to be sold and 218 are estimated). Growing popularity of the dinghies may mean more than the estimated numbers of dinghies are sold, particularly across the high season, securing the profit target.

The margin of safety (example of additional calculation) is high across the whole year, based on estimates, as only 3 dinghies need to be sold per month to break even. Even the low season estimates of 15 average per month are 5 times higher than break-even so even if the profit target is not quite met, a relatively high profit is fairly certain.

There are sufficient funds from the loan to cover the estimated cash deficits of $82 525 and $73 705 in October and November.

There should (easily) be sufficient cash surplus from sales once *Alumnz Limited* no longer needs to make the $140 000 machinery payment in January to recover a $15 000 overdraft required for December, so the bank overdraft is only needed for December.

Non-financial information

Growing popularity of aluminium dinghies means extra production is a good idea.

The relevant range allows continuing expansion of sales in the future as the current level of output is well below the total output of the machine, peak sales of 25 dinghies in December could increase by 15 before capacity is reached.

The machine could result in a more consistent product so less returns.

The machine may be able to produce other aluminium boats that could be added to the range of boats sold.

Recommendation – No, do not purchase the machine

Financial information

There is still the need to pay back the $480 000 at the end of two years.

The total interest cost over two years is substantial at $86 400

Costs like materials and labour may rise in the future reducing profit margins if prices cannot be raised.

Non-financial information

The popularity of dinghies might be only short lived.

Estimated sales volumes might be optimistic and are only a total of two over the profit target, based on current estimates which may not be met (218 based on current estimates against 216 needed for $804 000 profit).

The machine may lead to worker redundancy that is not acceptable to the directors of *Alumnz Limited* (example of additional non-financial information that could be incorporated to support an answer).

Judgement

Judgement is across all the evidence with (g) supported by relevant financial and non-financial information that justifies the recommendations chosen.

The response is assessed against the candidate's calculations in (b), (c), (e), and (f).

N1	N2	A3	A4	M5	M6	E7	E8
Minimal relevant evidence and reference to context across (a) to (g).	Some relevant evidence with minimal reference to context across (a) to (g).	Some relevant evidence with reference to context across (a) to (g).	Some relevant evidence with reference to context across (a) to (g).	Relevant, detailed evidence in context across (a) to (g).	Relevant, detailed evidence in context across (a) to (g).	Integrates context to relevant and accurate evidence that supports and justifies the recommendation in (g).	Integrates context to relevant and accurate evidence that supports and justifies the recommendation in (g).
		Evidence may come entirely from (a) to (f).		(g) includes relevant detailed financial OR non-financial information in context.	(g) includes relevant detailed financial AND non-financial information in context.	Shows an understanding of the wider context / long-term significance of the decision.	Shows an understanding of the wider context / long-term significance of the decision.
		Evidence may come from the planning box.	Evidence may come from the planning box.			One part of the recommendation may be weaker.	