**Leeming Senior High School**

**Accounting and Finance ATAR (Year 12)**

**Unit 3**

**Task 3**

**Assessment Type:**

Test

**Total Marks:**

65 marks

**Conditions:**

**Period Allowed for Completion of the Task:**

60 minutes under invigilated conditions.

**Task Weighting**

7% of the school mark for this pair of units

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**Section 1 (5 marks)**

**Answer the first 5 questions by circling the most appropriate answer.**

1 The break-even point is achieved when total revenue equals

1. total fixed costs.
2. total indirect costs.
3. total costs.
4. total variable costs.

2 In cost-volume-profit (CVP) analysis, an increase in the number of units sold will increase the

1. contribution margin per unit.
2. fixed costs per unit.
3. break-even point.
4. margin of safety.

3 Billy-EyeLash Ltd provided the following information about its business. Variable expenses are $36 300, fixed expenses are $50 000, and profit is $27 200. What is the sales amount in dollars?

1. $59 100
2. $77 200
3. $86 300
4. $113 500

4 ProsstMaloan Ltd provided the following information about its business. The selling price of the product is $40, variable expenses are $32 and fixed expensesare are $4 800. What is the break-even point in units?

1. 120
2. 150
3. 600
4. 800

5 If the selling price per unit, and the variable cost per unit, both increase by 20%, and fixed costs do not change, what will be the effect on the following?

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Contribution Margin Per Unit** | **Contribution Margin Ratio** | **Break-Even in Units** |
| (a) | increases | no change | decreases |
| (b) | no change | no change | no change |
| (c) | no change | increases | no change |
| (d) | increase | increases | decreases |

**Section 2 (60 marks)**

**Answer the following questions in the spaces provided.**

**Question 6 (22 marks)**

Tourquekan Limited sells restored motorcycles. The average motorcycle sells for $40 000 and has a total variable cost of $30 000. Fixed costs are approximately $300 000 per annum.

(a) Explain how management might use cost-volume-profit analysis for decision-making purposes.

(4 marks)

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(b) Explain what is meant by the term ‘margin of safety’. (2 marks)

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(c) Calculate the contribution margin per motorcycle and the contribution margin ratio.

(4 marks)

**Workings:**

Contribution margin per motorcycle: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Contribution margin ratio: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(d) Calculate the break-even point in units and sales dollars. (4 marks)

**Workings:**

Break-even point in units: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Break-even point in sales dollars: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(e) Tourquekan Limited requires a profit of $1 500 000 per annum. Calculate the required target sales in units, and sales dollars, to achieve the target profit. (5 marks)

**Workings:**

Required target sales in units: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Required target in sales dollars: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(f) Management consider the revenue to achieve a profit of $1 500 000 is achievable. Calculate the margin of safety percentage. (3 marks)

**Workings:**

Margin of safety percentage: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Question 7 (38 marks)**

XYZ Bike Builders Pty Ltd custom-make environmentally friendly bikes. They manufacture a hybrid bike and a road bike. Each comes equipped with GPS mounts, saddlebags, and retractable security locks. They distribute the product through their website, and approved bicycle stores in Perth, Western Australia.

The following information has been provided:

|  |  |
| --- | --- |
| Total Fixed Costs | $140 000 |
| Production Capacity in Units | 1 700 |
| Sales Commission Per Unit on Sale Price | 20% |

|  |  |  |
| --- | --- | --- |
|  | **Hybrid Bike** | **Road Bike** |
| Variable Costs | $1 800 | $1 540 |
| Sales Mix in Units | 600 | 800 |
| Sales Price Per Unit | $2 500 | $2 300 |

(a) Calculate the contribution margin per unit for each bike. (6 marks)

**Workings:**

Contribution margin per unit for the hybrid bike: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Contribution margin per unit for the road bike: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(b) Calculate to the nearest cent, the weighted average contribution margin per unit, for each bike. (6 marks)

**Workings:**

Weighted average contribution margin per unit for the hybrid bike: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Weighted average contribution margin per unit for the road bike: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(c) A new bike hire company is setting up in Perth and wants to specialise in overnight and weekly hire. They have approached XYZ Bike Builders Pty Ltd to make a special order of 400 hybrid bikes at a discounted price of $1 950. They will be branded with the bike hire business’s logo. No sales commission is payable.

1. Advise which bike XYZ Bike Builders Pty Ltd should reduce production of, if they are to accept the special order. Explain how you came to this decision. (5 marks)

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1. Calculate the profit on the special order (3 marks)

**Workings:**

Profit on the special order: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Calculate the overall increase in profit for XYZ Bike Builders Pty Ltd, if the special order is accepted. (7 marks)

**Workings:**

Overall increase in profit: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Using purely quantitative reasoning, recommend whether XYZ Bike Builders Pty Ltd should accept the order. (2 marks)

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1. Analyse three (3) qualitative factors that should be considered, before the managers decide to accept or reject the special order. (9 marks)

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