

# **ACCOUNTING ACO1011Y1**

## **INTERNAL ASSESSMENT ACTIVITY**

### **ACHIEVEMENT STANDARD 90981 (VERSION 3) ACCOUNTING 1.6**

#### **Make a financial decision for an individual or group**

Level 1, Internal assessment

3 credits

### **STUDENT INSTRUCTIONS**

#### **Overview:**

This standard gives you an opportunity to gain three credits by making a financial decision based on financial and non-financial information.

You are provided with an example of the steps you need to follow to make a justified decision.

You then need to apply this knowledge to a new situation. You are required to state your decision with clear justification.

In this activity you will be required to make a decision between two holiday options, state the total cost of the chosen option, and present this in a report.

In your report you will also outline the two options, associated budgets, and the reasons for your decision.

The detail you provide and the extent to which you justify your choice of holiday option will determine your overall grade.

#### **Conditions:**

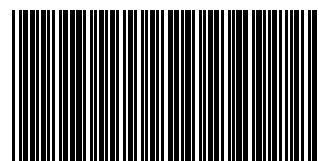
- Allow about six hours to complete this.
- This is an open book activity.
- Plagiarism detection software may be used to check this is your own work.

#### **You will need:**

- templates provided.

#### **Supervisor requirements:**

- Supervision is not required for this assessment.
- Upload your assessment to the ACO1011Y1 OTLE assessment dropbox when you have completed it.



# ASSESSMENT CRITERIA

## ACHIEVEMENT STANDARD 90981 (VERSION 3) ACCOUNTING 1.6

### Make a financial decision for an individual or group

Achievement	Achievement with Merit	Achievement with Excellence
Make a financial decision for an individual or group.	Make a reasoned financial decision for an individual or group.	Make a justified financial decision for an individual or group.

- Make a financial decision for an individual or group* means:
  - comparing at least two options using relevant financial and relevant non-financial information
  - making a financial decision
  - stating reasons, using relevant financial and non-financial information, for selecting the best option.
- Make a reasoned financial decision for an individual or group* means:
  - comparing at least two options using relevant financial and relevant non-financial information
  - making a financial decision
  - explaining reasons, using detailed relevant financial and non-financial information, for selecting the best option.
- Make a justified financial decision for an individual or group* means:
  - comparing at least two options using relevant financial and relevant non-financial information
  - making a financial decision
  - justifying reasons, using detailed and linked relevant financial and non-financial information, for selecting the best option.
- Students must collect and use secondary data to support their decision; they may also collect and use primary data if appropriate. Any data collected must be sourced.
- The financial decision* may include:
  - selecting a finance option: to purchase a personal asset; to fund further study; for a vacation; for a sports trip
  - selecting a saving option for retirement
  - selecting a vacation option within budget constraints
  - selecting a transport option to get to a sports tournament within budget constraints.
- Financial information must be linked to the financial decision and may include:
  - relevant costs
  - sources of income
  - cash budget
  - statement of affairs
  - alternative interest rates.
- Non-financial information must be linked to the financial decision.

# ASSESSMENT RESOURCES

## INSTRUCTIONS

Read this resource material carefully then complete the assessment activity and return it to your teacher.

## THE DECISION-MAKING PROCESS

You are required to make a financial decision. In order to do this you need to carry out the following process.

### 1. COLLECT DATA FOR TWO ALTERNATIVES.

You need to conduct research. Gather and assess information from websites, travel agents or any other secondary source. (Note: you do not need to interview anyone, but you can do so if you want to.)



ISTOCK

### 2. COMPARE AT LEAST TWO ALTERNATIVES.

You need to consider both financial and non-financial information.

- Compare the financial information – a budget is a useful tool here.
- Compare the non-financial information – it might help to list the important factors, setting them out in a table, and then to comment on each factor.
- Draw up a summary table of the advantages and disadvantages of each option. This might be useful as it will help you get a good overall understanding of the alternatives.

### 3. MAKE A DECISION.

It must be the best decision given the data you have gathered and presented.

### 4. JUSTIFY YOUR DECISION.

Provide a range of reasons for choosing this option (give the facts that made you decide why this option was better than the others).

Discuss why these reasons are important in making the decision. In your explanation you must link each reason to the relevant financial / non-financial information.

- Discuss why the option you have chosen is better than the others.
- Acknowledge factors which might have made another option a possible choice, but explain (logically and using valid reasoning) why these factors weren't as important a consideration as the ones that guided your decision-making.



ISTOCK

**Note:**

- For an excellence your discussion and reasoning need to be at a high level. Weigh up the advantages, disadvantages and facts – financial and non-financial, when making the decision.
- You need to justify (give reasons) for the decision you have made and link your reasons to detailed financial and non-financial information.
- You will need to hand in your research as well as a list of sources of data so that the work you have done and the research path followed can be checked.

**DETAILED EXAMPLE**

The following scenario is a typical example of an assessment and answer. Use it as a guide to brainstorm and plan your assessment.

**TASK**

Your mum is looking at buying a new car and has \$5,000 saved up. The car she wants to buy costs \$14,990 and she thinks that she can get \$2,000 if she trades in her old car, although she might decide to keep it so that you can drive it.

You are required to research two different ways in which she could finance the purchase of the car. You need to look at financial and non-financial factors. Your mum can afford to pay about \$150 a fortnight if she sticks to a strict budget.

**REPORT**

An example of a table that you could design to help make sure you are looking at both financial and non-financial factors, and that you are comparing the same things with each other.

**OPTION ONE: GET A PERSONAL LOAN FROM FERN BANK OF \$10,000.**

	FINANCIAL FACTORS	NON-FINANCIAL FACTORS
Amount of loan	\$10,000	
Interest rate	9% p.a.	
Amount of interest	Year 1                      \$900 Year 2                      \$643 Year 3                      \$385 Year 4 (6 months)        \$64 <b>Total</b> <b>\$1,991</b>	
Time of credit		The loan is to be paid back over the next 3.5 years (42 months).
Fortnightly repayments	\$143 or If the loan could be repaid over 5 years, this would increase the total amount of interest and only lower payment by \$37 a fortnight.	
When can Mum get the car?		The bank will take about one week to process the loan because Mum doesn't own her own house so hasn't got much security. Bank needs to do credit check on Mum.
What happens to the old car?	Could try to sell it on Trade Me for about \$3,500 or take it to auction.	I get to keep it.
What happens if Mum can't repay the loan?	If a repayment is missed, Mum has to pay a penalty of \$25.	No security required, but the loan could affect Grandpop who is prepared to be the guarantor – the bank might make him pay.
Other points of interest	\$100 set up fee.  Annual insurance \$525.	Mum might need a guarantor if bank sees her as too high a risk.  Mum can build up a good credit record with the bank if she repays on time, making it easier to get other credit later on.  Not much paperwork to fill out, just one loan form, and Mum needs to provide proof of her income and address.

**OPTION TWO: BORROW \$8,000 FROM COOL CAR FINANCE, THE USED-CAR SALES YARD FINANCE COMPANY.**

	FINANCIAL FACTORS	NON-FINANCIAL FACTORS
Amount of loan	\$8,000	
Interest rate	11.25% p.a.	
Amount of interest	Year 1                      \$900 Year 2                      \$720 Year 3                      \$540 Year 4                      \$360 Year 5                      \$180 <b>Total</b> <b>\$2,700</b>	
Time of credit		The loan is to be paid back over the next 5 years.
Fortnightly repayments	\$89 or If the loan could be repaid over 4 years, this would reduce the total interest payable, but fortnightly repayments would increase to \$106.	
When can Mum get the car?		Straightaway, because the finance is organised by the car company and there is guaranteed approval for all loans under \$10,000.
What happens to the old car?		It is traded in as part of the purchase agreement.
What happens if Mum can't repay the loan?	If a repayment is missed, Mum has to pay a penalty of \$25.	If three payments are missed, the car can be repossessed.
Insurance costs	Compulsory full insurance is required, costing \$50 per month (ie \$3,000 over the 5 year period of the loan).	
Other points of interest	An administration and application fee of \$350 is payable upfront at the start of the contract.	Mum can build up a good credit history if she always repays on time, and this would make it easier for her to get other credit in the future. There is a lot of paperwork to fill out, and lots of detail in the loan contract (fine print).

Summarise the financial information that you have gathered during your research, or create a budget.

### FINANCE SUMMARY

	OPTION ONE: FERN BANK LOAN	OPTION TWO: FINANCE COMPANY LOAN
Amount of loan	\$10,000	\$8,000
Set up fees	\$100	\$350
Total amount of interest payable over the period of the loan	\$1,991	\$2,700
Insurance	\$525 per year Or \$200 third party cover	\$3,000 over 5 years
Total cost of credit	\$12,091	\$14,050
Fortnightly repayments	\$143	\$114 (including insurance)

Sample

	ADVANTAGES	DISADVANTAGES
Option One		
Option Two		

Note: Please see attached documents (printouts) from Fern Bank and Cool Car Finance as evidence of financial research. (These are not present here but you would include them.)

**Make sure you state your decision with clear justification.**

## DECISION

**I recommend that Mum chooses Option One. Get a loan of \$10,000 from Fern Bank.**

## REASONS

Borrowing money from Fern Bank is the best option for Mum for a variety of reasons.

1. Mum has a budget of \$150 a fortnight to put towards the repayments. The repayments for Option One are within the budget. Mum will need to watch her spending and I will have to be aware of the financial pressure and not ask for too much more spending over the next few months. If I ask for more money, this could put Mum under a lot of stress and have a negative effect on her happiness. Although the repayments for Option Two seemed to be only \$89 per fortnight, this was misleading because the compulsory insurance of \$50 a month (\$25 a fortnight) that would also have to be paid. In reality this would make the fortnightly repayment amount \$114, as shown in the finance summary.
2. The Fern Bank loan is for a shorter period (3.5 years) than that from Cool Car Finance (5 years). This means that Mum will pay the car off quicker and therefore be able to start saving for other items earlier.
3. If Mum builds up her savings she would have the advantage of being able to earn interest. It is always good to repay the debt quickly, and if Mum gets overtime pay, the bank will allow her to make lump-sum payments (the finance company contract does not allow her to do so).
4. By choosing Option One, we still have the old car. I will need to discuss with Mum whether I can keep it. However, a better option might be to try to sell the old car on Trade Me and get more than \$2,000 which is the trade in price. We can then pay a lump sum off the bank loan. This will reduce the interest payment in the long run, and also shorten the debt period. Alternatively, Mum could make the lump-sum payment, but keep to the 3.5 year timeframe and lower the repayment amounts which would make it easier for her to afford the repayments. This is probably the best option for Mum. This shows that, in choosing Option One, Mum has several choices that she can consider in respect of the old car, whereas with Option Two none of them are available to her because she would have to trade in the old car.
5. One disadvantage of Option One over Option Two is that Grandpop will probably have to be a guarantor of the loan. This is another reason to sell the old car – doing so would make it less likely that Grandpop would need to be a guarantor for the bank loan. However despite the probable need for a guarantor, I think it is less of an issue than the possibility, under Option two, that the car might be repossessed if Mum cannot meet the repayments. Repossession means that the finance company would take the car and sell it, and if it sells for less than the amount Mum still owed, she would still have to pay the difference, would not get any of her payments back, and would have no car!
6. Even though Mum has to wait a bit longer to get the car by choosing Option One, it is only a week and she still has the old car. This means that the time factor is not a major issue and does not override any of the other advantages of Option One.

## CONCLUSION

Based on my research and the reasons provided above, Mum should definitely borrow \$10,000 from Fern Bank to fund the purchase of her car.



**SOURCES OF DATA**

Cool Cars Finance – on 3 July I rang and spoke to Les who provided me with the answers to my questions. He also emailed me a copy of the contract, a printout of which is attached.

Fern Bank, Shirley Branch – I met with Mel on 31 June and she provided me with plenty of information – see printout and my hand-written notes from the meeting.

Dick, Anne – NCEA Level 1 Accounting Learning Workbook, Auckland ESA Publications.

NZQA website: This website gave me access to a copy of the Achievement Standard.

[www.credithelp.co.nz](http://www.credithelp.co.nz) – I used this website to help me understand some of the financial and credit vocabulary in the loan documents.

This is an **Excellence** level exemplar, and what you should be aiming to write for this level.

For Achieved, ideas do not need to be linked or developed to the same extent, but nonetheless you must provide BOTH financial AND non-financial reasons.

# ASSESSMENT ACTIVITY AC1011Y1

## ACCOUNTING

### TASK

A family of four (two adults and two children aged 8 and 10) living in Auckland, has been saving for three years to go on a holiday for seven nights. The family has saved \$10,500; they can either go to Surfer's Paradise in Australia to experience the **theme parks** or to Queenstown in the South Island **skiing**.

The children are taking a week off school during term time to have the holiday when prices are cheaper. The family really enjoys skiing but the children would also like to experience the theme parks on the Gold Coast. The mother wants to enjoy some shopping either in Queenstown or Surfer's Paradise; the father loves skiing, but has never been to Australia. They all have current passports.

### PREPARE A REPORT

Prepare a report that makes a decision about where the family will go and how much the chosen option will cost. The decision will be based on the research you have undertaken.

Also include in your report:

- Reasons for your preferred option, referring to detailed and linked relevant financial and non-financial information. Include a reference to the fun activities chosen for each option.
- References to the information you collected and used. **Record the URL that links to the relevant part of any website you use so your teacher can access that webpage.**

### RESEARCH

Research and prepare budgets for **two** holiday options. Each budget should include the projected costs of:

- travel (for example, flights, car hire and petrol, public transport)
- accommodation (for example, camping ground, backpacker hostel, hotel)
- two fun activities (note: in Queenstown one must be **skiing** for at least 3 days and on the Gold Coast one must be the **theme parks**)
- food (allocate \$300 per day for food)
- travel insurance (overseas holidays only).

For planning purposes, use Resources A and B for your planning. Attach both as an Appendix to your report. These will be assessed only if referred to in your report.

Your sources of data may include internet research, printed material from travel agencies, or information from magazines, newspapers, or other media. Consider using primary data as well, for example, an interview with a travel agent. The information you collect should be both financial and non-financial. Feel free to draw up your own grid if you need more space.

### SOURCES OF DATA

Make a list of the URL that links to the relevant part of any website you used **so your teacher can access that web page**. Also list any references to printed material, such as travel agency booklets and include the date when published. You can attach photocopies of relevant data.

**RESOURCE A: EXAMPLE OF A PLANNING TEMPLATE**

	HOLIDAY OPTION ONE	HOLIDAY OPTION TWO
<b>Description of holiday</b>		
<b>Description and cost of travel</b>  (If you are travelling overseas, the cost of your travel must include travel insurance.)		
<b>Description and cost of accommodation</b>		

## ASSESSMENT ACTIVITY

<b>Description and cost of fun activities</b>  (Two at each destination.)		
<b>Cost of food</b>		
<b>Additional financial information</b>		
<b>Sources of information</b>		

**RESOURCE B: EXAMPLE OF A COMPARATIVE BUDGET (MAKE A COPY)**

	HOLIDAY OPTION: SURFER'S PARADISE \$NZ		HOLIDAY OPTION: QUEENSTOWN \$NZ	
Money saved		10,500		10,500
Less budget spending				
Food \$300 per day approx.	2,100		2,100	
Accommodation (1)				
Travel/transport/travel insurance (2)				
Fun activity 1 (3)				
Fun activity 2 (3)				
Total budget spending				
Spare spending money for extras, such as luxuries or souvenirs. (Some examples (4) and their expected costs may be added here before providing a final spare spending money figure.)				

Detailed costs are required to show how you reached the figures in your budget:

	\$NZ	\$NZ
(1) Details of accommodation costs:		
(2) Details of travel/transport/travel insurance costs:		

ASSESSMENT ACTIVITY

(3) Details of fun activities and their costs:		
(4) Detail for identified extras and their costs:		

**RESOURCE C: EXAMPLE OF A TABLE OF ADVANTAGES/DISADVANTAGES**

	ADVANTAGES	DISADVANTAGES
<b>OPTION ONE</b>		
<b>OPTION TWO</b>		

Now use this material to write your report on your own paper.



**Reminder: upload your assesment to the ACO1011Y1 OTLE assessment dropbox.**

## ACKNOWLEDGEMENTS

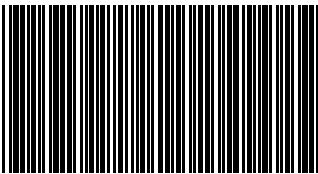
Every effort has been made to acknowledge and contact copyright holders. Te Aho o Te Kura Pounamu apologises for any omissions and welcomes more accurate information.

Photos: Figure with question mark, 17296723; Yes no maybe, 15754164, both iStock International Inc., Canada. Used by permission.

Photo: Car mechanic business © Te Aho o Te Kura Pounamu, Wellington, New Zealand.

Extract: Exemplar for AS90981 from Level 1 Accounting Learning Workbook, Anne Dick, ESA Auckland Publications, New Zealand. Extract only.

AC01O11Y1



STUDENTS – PLACE STUDENT ADDRESS LABEL BELOW OR WRITE IN YOUR DETAILS.	
Full Name	<div></div>
ID No.	<div></div>
Address <small>(If changed)</small>	<div></div>