## Mark Scheme Results

November 2016

Pearson LCCI (ASE20098) Level 3 Cost and Management Accounting

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

| Question Number | Answer AO2 (4) | Mark |
| :---: | :---: | :---: |
| 1ai | Award 1 mark for both closing inventory figures. Award 1 mark for both opening inventory figures. Award 1of mark for each total figure. <br> Direction of $+/$ - inventory must be correct <br> Workings: Closing inventory $A=140 \times 1.10=154 . B=120 \times 1.15=138$ |  |


| Question Number | Answer AO2 (5) | Mark |
| :---: | :---: | :---: |
| 1aii | Accept budgeted production units as of from a (i). Award 1of for production required figure. Award 1 mark for each of the inventory figures Direction of $+/$ - must be correct for budgeted purchases figure <br> Purchases budget (quantity in kg and cost) for Material X | (5) |


| Question Number | Answer AO2 (3) |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1aiii | Accept budgeted produc Award 1of for each of the labour cost <br> (iii) <br> Direct labour b <br> Budgeted production units Hours required per unit Budgeted labour hours <br> $\times$ Cost of labour per hour Budgeted labour (cost) | on units as budgeted <br> dget (quant <br> Product A $\begin{gathered} 1,214 \text { of } \\ \times 2.00 \\ 2428 \end{gathered}$ | a (i). hours. Award 1 <br> urs and cost) <br> Product B $\begin{gathered} 818 \text { of } \\ \times \quad \begin{array}{c} 2.50 \\ \hline \mathbf{2 0 4 5} \end{array} \text { of } \end{gathered}$ | budgeted <br> Total $\begin{aligned} & 4473 \\ & \frac{\$ 18.75}{368.75} \text { 1of } \end{aligned}$ | (3) |


| Question <br> Number | Answer AO1 (3) AO3 (3) |
| :--- | :--- |


| Question <br> Number | Answer AO1 (2) | Mark |
| :--- | :--- | :--- |
| 1c | Award 1 mark for each relevant suggestion - two required |  |
| The size of the company might dictate shorter budget periods |  |  |
| The complexity of the company - many departments or |  |  |
| offices/factories |  |  |
| The requirement of external agencies, like a bank |  |  |
| Government requirements - tax rules |  |  |
| Accept other reasonable answers | (2) |  |

TOTAL FOR QUESTION 1 = 20 MARKS

| Question <br> Number | Answer AO2 (16) | Mark |
| :--- | :--- | :--- |



| Question <br> Number | Answer AO1 (2) AO3 (2) | Mark |
| :--- | :--- | :--- |


| 2b | Award 1 mark for explanation and a further mark for <br> development <br> Award 1 mark for suitable example and 1 mark for <br> development | A notional charge is a hypothetical cost, which is necessary in <br> order to account for a benefit enjoyed, even though no actual <br> cost has been incurred (1) |
| :---: | :--- | :--- |
| It is important to include these notional costs in the cost of the <br> production in order to calculate the correct cost for pricing <br> purposes (1) | An example of a notional charge would be the business owner <br> not paying rent on the property (1) but it would be thought <br> correct to make a notional charge to the overheads equivalent <br> to the rental charge liable for similar properties (1) | (4) |


| Question <br> Number | Answer AO3 (2) | Mark |
| :--- | :--- | :--- |
| 2c | Award 1 mark for explanation and 1 mark for development. |  |
| They may have used different methods to calculate the depreciation <br> charge (1). Different methods might well make higher/lower charges to <br> the accounts (1) | (2) |  |

TOTAL FOR QUESTION 2 = 22 MARKS

| Question <br> Number | Answer AO2 (6) | Mark |
| :--- | :--- | :--- |



| Question Number | Answer AO2 (5) | Mark |
| :---: | :---: | :---: |
| 3b | Use order of priority from (a). Award 1 mark for each product quantity. Candidate must have allocated the contracted units. <br> Award 1 mark for balance and selection of final product | (5) |


| Question <br> Number | Answer AO2 (5) |
| :--- | :--- |


| 3c | Award 1 of mark for contribution for two products based on the production schedule in (b). Award 2 marks for fixed overheads. Award 1 mark for profit of. <br> Fixed costs $=(2400 \times \$ 32) \$ 76,800+(2100 \times \$ 32) \$ 67200+$ (1500 x \$38) $\$ 57000+(1200 \times \$ 38) \$ 45600=\$ 2466001$ | (5) |
| :---: | :---: | :---: |
| Question Number | Answer AO1 (1) AO3 (1) | Mark |
| 3di | Award 1 mark for definition and 1 mark for development. <br> A relevant cost is a future cash flow arising as a direct consequence of a decision (1). These are the costs that are changed/affected by a decision that has been taken (1) <br> They are costs that can be avoided if the decision does not do ahead (1) 2 max | (2) |
| Question Number | Answer AO1 (1) AO3 (1) | Mark |
| 3dii | Award 1 mark for definition and 1 mark for development. <br> Avoidable costs are defined as "the specific costs of an activity (or sector) of a business which would be avoided if that activity did not exist". (1) <br> These are the costs that would be affected if a business or activity was 'shut down' or discontinued (1) | (2) |


| Question <br> Number | Answer AO1 (1) AO3 (1) | Mark |
| :--- | :--- | :--- |
| 3diii | Award 1 mark for definition and 1 mark for development. |  |
|  | An opportunity cost is the benefit sacrifice from one course of <br> action in favour of an alternative course of action (1). Every <br> decision which involves making a choice between two or more <br> alternatives has an opportunity cost (1) | (2) |

TOTAL FOR QUESTION 3 = 22 MARKS

| Question <br> Number | Answer AO2 (3) | Mark |
| :--- | :--- | :--- |


| 4a | Award 1 mark for the cumulative cash flows. <br> Award 1 mark for 3 years and 1 mark for 3.42 months <br> Payback period |  |
| :---: | :---: | :---: |
|  | Payback period $=3+(67 / 235 \times 12) 3.42=3$ years (1) 3.42 months (1) | (3) |


| Question Number | Answer AO2 (4) |  |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 4bi | Award 1 mark for initial investment. Award 1 mark for first three cash flows and 1 mark for yr4 cash flow. Award 1 mark for NPV figure <br> Net present value - 12\% |  |  |  |  |  |
|  | Year | Cash flow $\$ 000$ | Factor | Present value $\$ 000$ |  | (4) |
|  | 0 | $(740)$ 230 | 1.000 0.893 | $\begin{aligned} & (740.00) \\ & 205.39 \end{aligned}$ | 1 |  |
|  | 2 | 218 | 0.797 | 173.75 |  |  |
|  | 3 | 225 | 0.712 | 160.20 | 1 |  |
|  | 4 | 290 | $\begin{aligned} & 0.636 \\ & \text { NPV } \end{aligned}$ | $=\frac{184.44}{(\$ 16.22)}$ |  |  |


| Question Number | Answer AO2 (4) | Mark |
| :---: | :---: | :---: |
| 4bii | Award 1 mark for all cash flows - of from part (i) Award 1 mark for NPV figure. Award 1 mark for correct formula and 1of mark for answer <br> Internal rate of return - 10\% <br> IRR for Machine $=10 \%+\{2 \% \times[16.19 \div(16.19+16.22)]\} \quad 1=11.00 \% \quad 1$ of NOTE: Initial NPV is a negative so IRR must be below $12 \%$ | (4) |


| Question <br> Number | Answer AO5 (2) | Mark |
| :--- | :--- | :--- |


| 4c | Award 1 mark for each part of the advice <br> The investment in the new machine should NOT be undertaken as it <br> results in a negative NPV of $£ 16220$ and is therefore not <br> worthwhile (1) and an IRR of $10.99 \%$ which is lower than the 12\% <br> cost of capital (1) | (2) |
| :--- | :--- | :--- |
| Question <br> Number Answer AO4 (2) AO5 (1) Mark <br> 4d Award 1 mark for each part of the analysis (2 marks) <br> Using a discounted payback approach takes into account the time <br> value of money (1). This overcomes the weakness of the traditional <br> payback method as a means of appraising an investment (1)  <br> Award 1 mark for evaluation If the discounted method had been used it would have clearly <br> shown that the discounted cash flows did not result in the <br> investment making a positive payback at the end of four years (1) (3) |  |  |$>.$

## TOTAL FOR QUESTION 4 = 16 MARKS

| Question Number | Answer AO2 (4) | Mark |
| :---: | :---: | :---: |
| 5ai | Award 1 mark for each correct value (2) 1 mark for formula and 1 of answer <br> Finished goods stock turnover <br> Cost of sales $=48000+340000-60000=\$ 3280001$ <br> Average stock $=48000+60000 / 2=540001$ | (4) |
| Question Number | Answer AO2 (2) | Mark |
| 5aii | Award 1 mark for formula and 1 mark for answer <br> Trade receivables collection period $\frac{\text { Trade receivables }}{\text { Credit sales }} \times 365 \text { days } \quad=\frac{\$ 74000}{\$ 760000} \times 365=35.54 \text { days } 1$ | (2) |


| Question <br> Number | Answer AO2 (2) | Mark |
| :--- | :--- | :--- |


| 5aiii | Award 1 mark for formula and 1 mark for answer based on part (i) calculations <br> Trade payables payment period <br> Accept $\$ 48000 \times 365 / \$ 340000=51.53$ days (2) | (2) |
| :---: | :---: | :---: |


| Question <br> Number | Answer AO2 (2) | Mark |
| :--- | :--- | :--- |
| 5aiv | Award 1 mark for each correct value |  |
|  | Current ratio |  |
|  | Current assets $\$ 134000$ : Current liabilities \$ 94000 (1) =1.43:1 (1) | (2) |


| Question <br> Number | Answer AO2 (2) | Mark |
| :--- | :--- | :--- |
| 5av | Award 1 mark for each correct value |  |
|  | Acid test (quick) ratio |  |
| Current assets - stocks $\$ 74000$ (1) : Current liabilities $\$ 94000=0.79: 1$ (1) |  |  |
| Accept 1: 1.31 | (2) |  |

## TOTAL FOR QUESTION 5 = 20 <br> TOTAL FOR PAPER = 100 MARKS

| 5b | Award up to 7 marks for analysis and 1 mark for evaluation <br> The company's inventory turnover is worse than the industry average ( 6.07 against 10 ) (1) indicating that the company is taking more time to sell its inventory / carrying too much inventory (1). The company needs to take action to reduce its inventory level, which is tying up unnecessary working capital. <br> (1) 2 MAX <br> The trade receivables collection period is worse than the industry average (1). Which seems to indicate that the company is not taking a firm stance with regard to chasing debtors for payment, (1) so the firm needs to improve on its debt collection (1). 2 MAX <br> The trade payables payment period is worse than the industry average (1). The company is taking too long to pay suppliers (1) - the company might be at risk of a supplier refusing to deal with them (1) and/or not giving reasonable discounts (1) They might be forced to seek alternative suppliers who might charge a higher price. (1) 2 MAX <br> The current ratio (1.43:1) is worse than the industry average of 1.50: 1 (1), because the accounts show that too much working capital is tied up in inventory and trade receivables (1) 2 MAX <br> The acid test $(0.79: 1)$ is worse than the industry average of 1 : 1 (1). Looking at the accounts we can see that the company has a bank overdraft which is a problem (1) and therefore no immediate finance to repay the trade payables (1) 2 MAX <br> Conclusion the company has a serious liquidity problem (1) |  |
| :---: | :---: | :---: |

