

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. Direction of +/- inventory must be correct						
	Production budget (units)	Product A	Produc	ct B			
			units		units		
	Budgeted sales units		1,200		800		
	Add Closing inventory		154		<u>138</u>	1	
			1,354		938		
	Less: Opening inventory		<u>(140)</u>		(<u>120)</u>	1	
	Budgeted production un	its 1,2	214 1of	818		1of	
	Workings: Closing inventory A = 140	x 1.10 = 154 .	. B = 120	x 1.15	= 138		(4)

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		
	Product A Product B TotalBudgeted production units $1,214$ of 818 ofMaterial required per unit $\underline{x \ 5}$ $\underline{x \ 8}$ Required for production $6\ 070\ kg$ $6\ 544\ kg$ $12\ 614\ kg$ Add Closing inventory (1 800 x 0.85) $\frac{1\ 530\ kg}{14\ 144\ kg}$ $14\ 144\ kg$ Less Opening inventory $(1\ 800)\ kg\ 1$ $12\ 344\ kg\ 1of$ Budgeted purchases (quantity) $12\ 344\ kg\ 1of$ x Cost of material per kg $x\ 16.25 Budgeted purchases (cost) $$10\ 590\ 1of$	(5)	

Question	Answer AO2 (3)				
Number					Mark
1aiii	Accept budgeted production units as of from a (i). Award 1of for each of the budgeted labour hours. Award 1of for budgeted labour cost				
	(iii) Direct labour bu	i dget (quantity i	n hours and cost)		
	Budgeted production units Hours required per unit Budgeted labour hours × Cost of labour per hour Budgeted labour (cost)	Product A 1,214 of x <u>2.00</u> 2 428	Product B 818 of x <u>2.50</u> <u>2 045</u> 1of \$8;	Total 4 473 (
	G (111)		• - ·	-	(3)

Question	Answer AO1 (3) AO3 (3)	
Number		Mark

1b	Award 1 mark for explanation and 1 mark for development for each of three suggestions. Accept other reasonable suggestions linked to the characteristics of good management			
	Budgeting provides a means of communicating management's plans throughout the organisation (1) so that various levels of the workforce are informed of the company's intentions. (1)			
	Budgeting forces managers to think about and plan for the future (1). In the absence of the necessity to prepare a budget, managers might spend their time dealing with daily issues (1).			
	The budgeting process provides a means of allocating resources (1) to those parts of the organisation where they have been proved to be required and can be used most effectively. (1)			
	Budgeting co-ordinates the activities of the organisation (1) by integrating the plans of the various departments / thus helping to ensure that everyone is pulling in the same direction. (1)			
	Budgets define goals and objectives (1) that can serve as benchmarks for evaluating subsequent performance (1).			
	The actual results can be compared with the budget (1) which might allow for corrective action to be undertaken / variance analysis (1).	(6)		

Question	Answer AO1 (2)	
Number		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	Answer AO2 (16)	
Number		Mark

2a	Award 1 mark for each correct item - 15 in total. Award 1of mark for total				
	Profit as per financial accounts	\$		\$ 248,500 1	
	Inventory adjustments				
	Raw materials – opening (170 700 - 178280)	7 580	1		
	Raw materials - closing (142 800 – 147 000)	(4 200)	1		
	WIP – opening (77 780 – 87 100)	9 320	1		
	WIP - closing (65 190 – 61 060)	4 130	1		
	Finished goods – opening (131 060 – 125 800)) (5 260)	1		
	Finished goods – closing (158 020 – 155 800)	<u>2 220</u>	_ 1	<u>13 790</u> [6] 262 290	
	Add				
	Depreciation (58 200 - 64 600)	6 400	1		
	Loss on sale of asset	12 750	1		
	Interest Charges	19 500	1		
	Discounts Allowed	10 620	_1	<u>49 270</u> [4]	
	Less			311 560	
	Dividends received	9 750	1		
	Notional rent charge	16 500	1		
	Over absorbed overheads	9 300	1		
	Sundry Investment income	<u>18 750</u> (54 300)	1	[4]	
	Profit as per cost accounts	257 260	10	F	(16)

Question	Answer AO1 (2) AO3 (2)	
Number		Mark

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

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

TOTAL FOR QUESTION 2 = 22 MARKS

Ouestion	Answer AUZ (6)	
2		
Number		Mark
Number		Mark

3a	Award 1 mark for each re Award 1of for order of pr	ow riority w	hich M	UST be us	ed for p	art b.		
	Order of priority	Alpha	Beta	Gamma	Delta			
	Selling price	168	180	270	250			
	Direct material	30	40	50	40			
	Variable overhead	24 <u>18</u> 70	<u>18</u>	48 <u>32</u>	50 <u>40</u>	1 for	r all four	
		<u>12</u>	<u>80</u>	<u>130</u>	<u>130</u>	1 01		
	Contribution per unit	\$ <u>96</u>	<u>\$10</u>	<u>0</u> \$ <u>140</u>	<u>) </u> \$	120	1of	
	Direct materials kg per uni	τ 6	8	10		8	1	
	Contribution per kg of mate	erial \$16	5.00 \$ [,]	12.50 \$14.0	00 \$1	5.00	1of	
	Order of priority		1	4 3		2	1of	(6)
								(0)

Question	Answer AO2 (5)			
Number				Mark
3b	Use order of priority from (a). Award 1 mark for each prod Candidate must have allocated the contracted units. Award 1 mark for balance and selection of final product	uct quan	tity.	
	Production schedule			
	Balance of material kg Product Alpha	36 800		
	1 000 units x 6kg (6 000 kg) and 1 400 units x 6kg (8 400 kg) Product Delta	14 400	1	
	200 units x 8kg (1 600 kg) and 1 000 units x 8kg (8 000 kg) Product Beta	9 600	1	
	600 units x 8kg (4 800 kg)	4 800	1	
	Balance of material	8 000	1	
	Product Gamma 8 000kg/10kg = 800 units 1			
				(5)

Question	Answer AO2 (5)	
Number		Mark

3c	Award 1of mark for contribution for the production schedule in (b). Awa overheads. Award 1 mark for profit	Award 1of 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.					
	Contribution schedule Product Alpha 2 400 units x \$96 = Product Delta 1 200 units x \$120 = Product Beta 600 units x \$100 = Product Gamma 800 units x \$140 = Total contribution Less fixed costs Net profit	\$230 400 \$144 000 \$60 000 <u>\$112 000</u> \$546 400 <u>\$246 600</u> \$299 800	1of 1of (1 + 1of) 1of				
	Fixed costs = (2 400 x \$32) \$76,800 - (1 500 x \$38) \$57 000 + (1 200 x \$38) \$45 600 = \$2	⊦ (2 100 x \$3: 2 46 600 1	2) \$67 200 +	(5)			

Ouestion	Answer AO1 (1) AO3 (1)	
Number		Mark
3di	Award 1 mark for definition and 1 mark for development.	
	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)	
	They are costs that can be avoided if the decision does not do	
	ahead (1) 2 max	
		(2)

Question	Answer AO1 (1) AO3 (1)	
Number		Mark
3dii	Award 1 mark for definition and 1 mark for development.	
	· · · · · · · · · · · · · · · · · · ·	
	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) These are the costs that would be affected if a business or activity was 'shut down' or discontinued (1)	
		(2)

Number	Mark		
3diii Award 1 mark for definition and 1 mark for development.			
An opportunity cost is the benefit sacrifice from one course of action in favour of an alternative course of action (1). Every decision which involves making a choice between two or more alternatives has an opportunity cost (1)	/->		
	(2)		
TOTAL FOR QUESTION 3 = 22 MAI			

Question Number	Answer AO2 (3)	Mark

4a	Award 1 mark 1 Award 1 mark 1	for the cumul for 3 years an	ative cash flo id 1 mark for 3	ws. 3.42 months		
	Payback period	t				
	-		Machine			
	Year	Cash flows	Cumulative c	ash flows		
		\$000	\$000			
	0	(740)	(740)			
	1	230	(510)			
	2	218	(292)			
	3	225	(67)	1		
	4	235				
	Payback period	d = 3 + (67 / 23	35 x 12) 3.42 ÷	= 3 years (1) 3.42 ı	months (1)	(3)

Question	Answer AO	2 (4)				
Number						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					
	Net present va	lue – 12%				
	Year	Cash flow \$000	Factor	Present valu \$000	е	
	0	(740)	1.000	(740.00)	1	
	1	230	0.893	205.39		
	2	218	0.797	173.75		
	3	225	0.712	160.20	1	
	4	290	0.636	<u>184.44</u>	1	
			NPV	= (\$16.22)	1of	(4)

Ouestion	Answer AO2 (4)						
Number		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						
	Internal rate of return – 10%						
	Year Cash flow Factor Present value \$000 \$000						
	0 (740) 1.000 (740.00)						
	1 230 0.909 209.07						
	2 218 0.826 180.07						
	3 225 0.751 168.98						
	4 290 0.683 <u>198.07</u> 1of						
	NPV = \$16.19 1 of						
	IRR for Machine = 10% + {2% × [16.19 ÷ (16.19 + 16.22)]} 1 = 11.00%	1of					
	NOTE: Initial NPV is a negative so IRR must be below 12%						
		(4)					

Question	Answer AO5 (2)	
Number		Mark

4c	Award 1 mark for each part of the advice	
	The investment in the new machine should NOT be undertaken as it results in a negative NPV of £16 220 and is therefore not worthwhile (1) and an IRR of 10.99% which is lower than the 12% cost of capital (1)	(2)

Question	Answer AO4 (2) AO5 (1)	
Number		Mark
4d	Award 1 mark for each part of the analysis (2 marks)	
	Using a discounted payback approach takes into account the time value of money (1). This overcomes the weakness of the traditional payback method as a means of appraising an investment (1)	
	Award 1 mark for evaluation	
	If the discounted method had been used it would have clearly shown that the discounted cash flows did not result in the 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 1of answer	
	Finished goods stock turnover	
	Production cost of sales=\$328000= 6.07 times 1ofInventory of finished goods\$54 000 (1)	
	Cost of sales = 48 000 + 340 000 - 60 000 = \$328 000 1	
	Average stock = 48 000 + 60 000 / 2 = 54 000 1	
		(4)

Question Number	Answer AO2 (2)	Ma	lark
5aii	Award 1 mark for formula and 1 mark for answer	,	
	Trade receivables collection period		
	$\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365 \text{ days} = \frac{\$74\ 000}{\$760\ 000} \times 365$	= 35.54 days 1	
		(2	2)

Question	Answer AO2 (2)	
Number		Mark

5aiii	Award 1 mark for formula and 1 mark for answer based on part (i) calculations		
	Trade payables payment period		
	<u>Trade payables</u> x 365 days Cost of sales	<u>\$48 000</u> x 365= 53.41 days 1of 328 000 (of) (1)	
	Accept \$48 000 x 365 / \$340 0	000 = 51.53 days (2)	(2)

Question Number	Answer AO2 (2)	Mark
5aiv	Award 1 mark for each correct value	
	Current ratio	
	Current assets \$134 000 : Current liabilities \$ 94 000 (1) = 1.43 : 1 (1)	(2)

Question	Answer AO2 (2)	
Number		Mark
5av	Award 1 mark for each correct value	
	Acid test (quick) ratio	
	Current assets – stocks \$74 000 (1) : Current liabilities \$94 000 = 0.79 : 1 (1)	
	Accept 1 : 1.31	
		(2)

TOTAL FOR QUESTION 5 = 20

TOTAL FOR PAPER = 100 MARKS

Question	Answer AO4 (7) AO5 (1)	
Number		Mark

5b	Award up to 7 marks for analysis and 1 mark for evaluation	
	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. (1) 2 MAX	
	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	
	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	
	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	
	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	
	Conclusion the company has a serious liquidity problem (1)	(8)