Pearson LCCI

Certificate in Cost and Management Accounting (VRQ)
Level 3

Friday 11 November 2016
Time: 3 hours

Paper Reference
ASE20098

Complete the details below in block capitals.

Candidate name

Centre Code | Candidate Number

Candidate ID Number

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen
  – *pencil can only be used for graphs, charts, diagrams, etc.*
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and your candidate ID number.
- Answer **all** questions.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*
- Answers should be given to an appropriate degree of accuracy.

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.
- You are advised to show your workings.

Answer ALL questions. Write your answers in the spaces provided.

1 Elmohamady manufactures and sells two products – Product A and Product B.

The company is preparing its budgets for period 6.

Sales: Product A 1 200 units Product B 800 units

Both products use the same raw material (Material X) and direct labour, with the following requirements for each unit of output:

	Product A	**Product B**
Material X at $16.25 per kg	5 kg	8 kg
Direct labour at $18.75 per hour	2.00 hours	2.50 hours

The inventory of Material X will be 1 800 kg at the beginning of period 6.

The company aims to **reduce** the inventory level of Material X by **15%** by the end of period 6.

The inventory levels of the finished goods at the beginning of period 6 will be:

Product A 140 units Product B 120 units

The company plans to **increase** the inventory level of Product A by **10%** and Product B by **15%**, by the end of period 6.

(a) Prepare the following budgets for period 6:

(i) production (units of each product)

(4)

(ii) purchases (quantity in kg and cost in $) for Material X

(5)

(iii) direct labour (total hours and cost in $).

(3)

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(b) Describe **three** benefits that the company might obtain from preparing budgets.

(6)

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(c) Identify **two** factors that might influence the company's choice of **budget period**.

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(Total for Question 1 = 20 marks)

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2 Hernandez Limited operates a non-integrated accounting system.

At the end of an accounting period the profit shown in the financial accounts was $248 500.

Examination of the two sets of accounts revealed the following:

	Cost accounts $	**Financial accounts $**
Opening inventory valuations:		
Raw materials	170 700	178 280
Work-in-progress	77 780	87 100
Finished goods	131 060	125 800
Closing inventory valuations:		
Raw materials	142 800	147 000
Work-in-progress	65 190	61 060
Finished goods	158 020	155 800
Depreciation	58 200	64 600
Loss on sale of an asset		12 750
Dividends received		9 750
Discount allowed to customers		10 620
Sundry investment income		18 750
Notional rent charge	16 500	
Interest charges		19 500
Over absorbed overheads carried forward	9 300	

(a) Prepare a profit reconciliation statement for the period, starting with the profit recorded in the financial accounts, to reconcile with the profit recorded in the cost accounts.

(16)

(b) One of the items appearing in the cost accounts is a notional rent charge.

Explain, including an example, why the notional rent charge is shown in the cost accounts.

(4)

(c) Explain why the depreciation charges are different in the two sets of accounts.

(2)

(Total for Question 2 = 22 marks)

3 Dawson McGuire manufactures and sells four products that all use the same raw material.

The company is currently setting up its production schedule for the next period.

The details for the four products are as follows:

	Product Alpha $ per unit	**Product Beta $ per unit**	**Product Gamma $ per unit**	**Product Delta $ per unit**
Selling price	168	180	270	250
Direct material ($5 per kg)	30	40	50	40
Direct labour	24	22	48	50
Variable overheads	18	18	32	40
Fixed overheads	32	32	38	38

The fixed overhead per unit has been calculated on the basis of the sales demand for each product.

	Product Alpha	**Product Beta**	**Product Gamma**	**Product Delta**
Sales demand (units)	2 400	2 100	1 500	1 200

The above sales figures **include** the following units, which the company is contracted to supply to some of its customers in the coming period:

Product Alpha 1 000 units Product Beta 600 units Product Delta 200 units

The same raw material is used in the production of all four products, and is in short supply. Only 36 800 kg will be available for production in the period.

(a) Calculate the order of priority for production in the period with the objective of maximising contribution.

(6)

(b) Calculate the optimum production schedule, taking into account the company's contractual commitments.

(5)

(c) Calculate the net profit resulting from the production schedule you identified in (b).

(5)

(d) Explain the meaning of the following terms:

(i) relevant cost

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(ii) avoidable cost

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(iii) opportunity cost.

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(Total for Question 3 = 22 marks)

4 Meyler Diamonde is considering investing in new machinery with an initial cost of $740 000.

This machinery will have a four-year lifespan, with a residual value of $55 000.

The estimated annual net cash inflows are:

	$000
Year 1	230
Year 2	218
Year 3	225
Year 4	235 (excluding the residual value)

(a) Calculate, for the proposed new machinery, the payback period (in years and months).

(3)

The company's cost of capital is 12% per annum.

The relevant discount factors are as follows:

	10%	**12%**
Year 1	0.909	0.893
Year 2	0.826	0.797
Year 3	0.751	0.712
Year 4	0.683	0.636

(b) Calculate for the proposed new machinery the:

(i) net present value

(4)

(ii) internal rate of return.

(4)

(c) Advise the company whether to invest in the new machinery, on the basis of your calculations in part (b).

(2)

(d) Advise the company why it might have been more appropriate to calculate the **discounted payback period**, as opposed to the **traditional payback method**, when evaluating this investment proposal.

(3)

(Total for Question 4 = 16 marks)

5 The following information has been extracted from the financial statements of Clucas Davies for the year ended 2015.

	$000
Revenue	760
Opening inventory of finished goods	48
Ordinary goods purchased	340
Closing inventory of finished goods	60
Trade receivables	74
Bank overdraft	46
Trade payables	48

Further information

- All of the sales and purchases were on credit.
- Assume 1 year = 365 days.

(a) Calculate the following working capital ratios (to two decimal places):

(i) rate of inventory (finished goods) turnover (number of times)

(4)

(ii) trade receivables collection period (days)

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(iii) trade payables payment period (days)

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(iv) current ratio

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(v) acid test (quick) ratio.

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The following figures are available for the industry averages:

Ratio	Industry average
Inventory turnover	10 times per year
Trade receivables collection period (days)	32 days
Trade payables payment period (days)	38 days
Current ratio	1.50 : 1
Acid test (quick) ratio	1 : 1

(b) Evaluate the liquidity of the company using the ratios calculated in (a), the company's financial information and the industry averages.

(8)

(Total for Question 5 = 20 marks)

TOTAL FOR PAPER = 100 MARKS

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