# Mark Scheme Results <br> April 2016 

Pearson LCCI Cost and Management Accounting Level 3 (VRQ) (ASE20098)

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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.
- Where marks are awarded for own figure answers, these marks can only be awarded if evidence of how the candidates arrived at their values has been provided (their workings).
- If candidates' fail to provide their workings when instructed in the paper, it may not be possible to achieve all marks associated with the question, even if the final answer is correct.
- For calculation questions, full marks can be awarded where correct answer is seen with no workings shown, unless question states that candidates must provide workings.


## Abbreviations

M1 Method Mark
This is used to reward candidates where there is evidence of the candidate having adopted the correct method for a calculation, but where the accuracy of the answer is not necessarily being awarded a mark.

A1 Accuracy Mark
This is used to reward candidates who have attained the answer to a specific calculation representing a method in the question. If stated in the mark scheme, the own figure rule can be used with the accuracy mark.
of Own Figure rule
Accuracy marks can be awarded where the candidates' answer does not match the mark scheme, though is accurate based on their valid method.
cao Correct Answer Only rule
Accuracy marks will only be awarded if the candidates' answer is correct, and in line with the mark scheme.

Or Equivalent rule
This rule is used when the value of an answer may be presented in a variety of ways, such as fractions (simplified/non-simplified/mixed), decimals, percentages. The candidates' answer must be equivalent in value to the mark scheme answer.
awrt 'Anything Which Rounds To' rule
This rule is used when the candidates supply a figure which rounds to the value determined by the mark scheme

| Question Number | Answer (AO1) 4 | Mark |
| :---: | :---: | :---: |
| 1 (a) | Award 1 mark for each benefit. Answers may include: <br> - Maintains planned levels of inventory (1) <br> - Keeps total inventory investment to a minimum (1) <br> - May keep inventory holding costs to a minimum (1) <br> - Reduces the risk of running out of inventory (1) <br> - May keep inventory ordering costs to a minimum (1) | (4) |


| Question Number | Answer (AO2) 5 |  |  |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (b)(i) | Award 1 mark for each correct column of figures |  |  |  |  |  | (5) |
|  | Order size <br> (kg) | No of orders | Order costs (\$) | Average inventory (kg) | Holding costs (\$) | Total costs (\$) |  |
|  | 1000 | 12 | 2400 | 1500 | 1800 | 4200 |  |
|  | 2000 | 6 | 1200 | 2000 | 2400 | 3600 |  |
|  | 3000 | 4 | 800 | 2500 | 3000 | 3800 |  |
|  | 4000 | 3 | 600 | 3000 | 3600 | 4200 |  |
|  |  | (1) | (1) | (1) | (10f) | (10f) |  |


| Question <br> Number | Answer (A05) 1 | Mark |
| :--- | :--- | :--- |
| $\mathbf{1 ( b ) ( i i ) ~}$ | Award 1of mark for answer. <br> 2000 kg has the lowest total cost (1of) | (1) |


| Question | Answer (A02) 1 | Mark |
| :--- | :--- | :--- |
| Number | (c)(i) | Award 1 mark for correct answer. <br> Reorder level <br> $=360 \times 21$ <br> $=7560 \mathrm{~kg} \mathrm{(1)}$ |


| Question Number | Answer (AO2) 2 | Mark |
| :---: | :---: | :---: |
| 1(c)(ii) | Award 1 method mark and $10 f$ for answer. <br> Minimum control level $\begin{aligned} & =7560 \text { (of) }-(300 \times 18)(1) \\ & =2160 \mathrm{~kg}(1 \mathrm{of}) \end{aligned}$ | (2) |
| Question Number | Answer (AO2) 3 | Mark |
| 1(c)(iii) | Award 2 method marks and 1 of for answer. Maximum control level $\begin{aligned} & =7560(\mathrm{of})-(240 \times 15)(1)+10000(1) \\ & =13960 \mathrm{~kg}(1 \mathrm{of}) \end{aligned}$ | (3) |

## TOTAL FOR QUESTION 1 - 16 MARKS

| Question Number | Answer (AO2) 4 | Mark |
| :---: | :---: | :---: |
| 2(a)(i) | Award 1 mark each for total and unit contribution. Award 1 method mark and 1 correct answer for the break-even point. $\begin{array}{\|l} \text { Planned total contribution } \end{array}=\$ 440000+\$ 520000$ | (4) |


| Question <br> Number | Answer (AO2) 1 |  |
| :--- | :--- | :--- |
| 2(a)(ii) | Award 1of mark provided the break-even value calculated in a(i) is used. <br> Margin of safety$=[(120000-55000(\mathrm{of})) / 120000]$ <br> $=54.2 \%(1 \mathrm{of})$ |  |


| Question <br> Number | Answer (AO2) 1 |  |
| :--- | :--- | :--- |
| 2(a)(iii) | Award 1of mark provided the unit contribution figure calculated in a(i) is used.      <br> $=\$ 8(0 f) / \$ 15$      <br>  Contribution ratio     <br>  (10f)     |  |


| Question Number | Answer (AO2) 3 | Mark |
| :---: | :---: | :---: |
| 2 (b) | Award 2 method marks and 1of mark for profit calculation. Changed production process $\begin{aligned} & \text { Unit contribution }=\$ 15-\$ 5=\$ 10 \text { per unit (1) } \\ & \text { Contribution at } \begin{aligned} 120,000 \text { units output } & =120000 \times \$ 10 \text { (of) } \\ & =\$ 1200000(1 \mathrm{of}) \end{aligned} \end{aligned}$ | (3) |




| Question <br> Number | Answer (AO2) 1 | Mark |
| :--- | :--- | :--- |
| $\mathbf{3 ( b )}$ | Award 1of mark provided total overhead figure calculated for Department A is used. <br>  <br>  <br>  <br>  <br>  <br>  <br> Department $A$ <br> $\$ 17600$ (of) $/ 8000=\$ 2.20$ per labour hour (1of) |  |


| Question Number | Answer (A05) 4 | Mark |
| :---: | :---: | :---: |
| 3 (c) | Award 2 marks for each department from below. (2x2) <br> Department B <br> Method - machine hours (1) <br> Reason-high machine hours coupled with low labour hours suggests Department B is dominated by machines. (1) <br> Department C <br> Method - number of units produced (1) <br> Reason - a mixture of machine and labour hours (suggests a finishing department) where neither machine or labour hours dominate. The business only produces a single product hence units produced is most appropriate.(1) | (4) |
| Question Number | Answer (AO2) 2 | Mark |
| 3 (d) | Award 1of mark for each department provided total overhead figures calculated in (a) are used. <br> Department B <br> Pre-determined overhead absorption rate <br> $\$ 11400$ (of)/6 $000=\$ 1.90$ per machine hour (1of) <br> Department C <br> Pre-determined overhead absorption rate <br> $\$ 14000(\mathrm{of}) / 2000=\$ 7.00$ per unit (1of) | (2) |


| Question | Answer (AO3) 1 (AO1) 1 | Mark |
| :---: | :---: | :---: |
| 3(e)(i) | Award 1 mark for explanation and 1 mark for providing one example. Allocation is the charging of the whole overhead item to one cost centre.(1) Examples include: <br> - specific rent and insurance (1) <br> - indirect labour (1) <br> - indirect material.(1) | (2) |
| Question Number | Answer (AO3) 1 (AO1) 1 | Mark |
| 3 (e)(ii) | Award 1 mark for explanation and 1 mark for providing one example. <br> Apportionment is the sharing of overheads between two or more cost centres. (1) Examples include: <br> - non-specific rent (1) <br> - rates (1) <br> - insurance (1) <br> - electricity (1) <br> - depreciation.(1) | (2) |



| Question Number | Answer (AO2) 3 |  |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 4(a)(iii) | Award 1of ma April figures. <br> Labour cost bud $\$$ <br>  Jan <br> Basic 3024 <br> Bonus 208 <br>  3232 | $\begin{aligned} & \text { for eac } \\ & \text { et } \\ & \$ \\ & \text { Feb } \\ & 2976 \\ & 192 \\ & \hline 3168 \end{aligned}$ | $\begin{aligned} & \text { correct } \\ & \\ & \$ \\ & \text { March } \\ & \mathbf{3 0 2 4} \\ & \hline \mathbf{2 0 8} \\ & \hline \mathbf{3 2 3 2} \\ & \hline \end{aligned}$ | w of fin <br> \$ <br> April <br> 3048 <br> 216 <br> 3264 | ures <br> (10f) <br> (10f) <br> (10f) | (3) |




| Question <br> Number | Answer (AO5) 1 | Mark |
| :--- | :--- | :--- |
| 4(b) | Award 1of mark based on cash budget in (a)(iv). <br> The business has a cash flow problem. (1of) |  |
| Question   <br> Number Answer (AO1) 4 Award 1 mark for each point up to a maximum of 2 marks per use of cash budget. (2x2) <br> Answers may include: <br> - Cash shortages revealed early (1) and arrangements can be made for overdraft on best <br> terms.(1) <br> - Cash surpluses revealed (1) and can be invested. (1)   <br>  Can highlight difficulties e.g. paying suppliers (1) and take appropriate action e.g. liaise with <br> suppliers (1). (4) |  |  |

TOTAL FOR QUESTION 4 - 24 MARKS

| Question | Answer (AO1) 2 | Mark |
| :--- | :--- | :--- |
| Number (a)(i) | Award 1 mark for each point up to a maximum of 2 marks. <br> Net present value: <br> An investment appraisal technique that converts future cash flows into present-day values (1) and <br> states if there is a discounted net cash inflow or outflow.(1) | (2) |


| Question <br> Number | Answer (AO1) 2 | Mark |
| :--- | :--- | :--- |
| $\mathbf{5 ( a ) ( i i ) ~}$ | Award 1 mark for each point up to a maximum of 2 marks. <br> Internal rate of return: <br> An investment appraisal technique that estimates the interest rate (cost of capital)(1) at which <br> there is no inflow or outflow of cash.(1) | (2) |


| Question Number | Answer (AO2) 2 |  | Mark |
| :---: | :---: | :---: | :---: |
| 5 (b)(i) | Award 2 marks for calculations. <br> Machine A <br> Annual depreciation (800 000-120 000)/5 <br> Annual profit <br> Annual cash flow | $\begin{aligned} & =136000(1) \\ & \$ \underline{100000} \\ & \$ \underline{236000} \end{aligned}$ | (2) |


| Question | Answer (AO2) 2 |  | Mark |
| :---: | :---: | :---: | :---: |
| 5 (b)(ii) | Award 2 marks for calculations. <br> Machine B <br> Annual depreciation (900 000-250 000)/5 <br> Annual profit <br> Annual cash flow | $\begin{aligned} & =130000(1) \\ & \underline{110000} \\ & \$ \underline{240000} \end{aligned}$ | (2) |



| Question | Answer (AO4) 1 | Mark |
| :--- | :--- | :--- |
| Number | Award 1 mark for reason based on answer to (c). <br> Machine A will result in a higher net present value than Machine B. Therefore advice is to purchase <br> Machine A. (1of) | $\mathbf{( 1 )}$ |


| Question <br> Number | Answer (AO3) 4 | Mark |
| :---: | :---: | :---: |
| 5(e) | Award 1 mark for each advantage (up to 2 marks) and 1 mark for each disadvantage (up to 2 marks). <br> Advantages <br> - It takes into account all future cash flows. (1) <br> - It takes into account the 'time value' of money. (1) <br> - Helps show if the investment meets the target rate.(1) <br> Disadvantages <br> - It assumes that the interest rate/cost of capital remains constant through the life of the investment. (1) <br> - It is difficult to accurately predict future costs and revenues. (1) | (4) |

