Mark Scheme

September 2016
Results

Pearson LCCI (ASE20098) Level 3 Certificate in Cost and Management Accounting

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ASE20098
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Question	Answer (AO2) 7	Mark
1(a)(i)	Selling price per unit = **$7.95 (1)**	
1 (a)(ii)	Heat, Light and Power: VC = $\frac{\$19\,200 - 17\,400}{120\,000 - 90\,000 \text{ units}}$ = **$0.06 / unit (1)** FC = 19 200 – (120 000 x 0.06) = **$12 000 (1)**	
1 (a)(iii) **1 (a)(iv)**	Fixed / Variable Materials — 2.30 Labour — 56,000 — 0.04 **(1 both)** Heat, Light & Power — 12,000 — 0.06 Machine Costs — 84,000 Production Overheads — 102,000 **(1)** — 0.15 Non-Production Overheads — 133,600 — . . **$387,600** (**1 of**) — **$2.55** **(1of)**	**(7)**

Question	Answer (AO2) 9	Mark
1 (b)(i)	Break-Even Point = $\frac{403{,}860}{3.81}$ **(1 of)** = **106,000 units (1 of)** **[3]** Fixed Costs = $387,600 + $16,260 = **$403,860** (of – must add 16,280 to answer from a) Selling Price = 80% x $7.95 = **$6.36** (of – must deduct 20% from answer in a) Contribution = $6.36 - $2.55 = **$3.81** (of – must be new selling price - variable cost from a)	
1 (b)(ii)	Profit Point = $\frac{403{,}860 + 100{,}000}{3.81}$ **(1 of)** = **132,247 units (1 of)** **[3]**	
1 (b)(iii)	Margin of Safety (units) = 125,000 – 106,000 = **19,000 (1 of)** Margin of Safety (%) = $\frac{19{,}000}{125{,}000}$ **(1 of)** x 100 = **15.20% (1 of)** **both** **[3]**	**(9)**

Question	Answer (AO4) 4	Mark
1 (c)	Answers may include: The selling price might change by more or less than 20% **(1)** – this would affect profit / contribution / break-even point / margin of safety **(1)** The level of demand might change **(1)** – this would affect profit / contribution/ break-even point / margin of safety **(1)** Costs for materials/labour may change **(1)** due to wage demands/inflation/internal or external factors **(1).** 1 mark to be awarded for making each point plus 1 mark for developing the point (maximum 2 x 2)	**(4)**

Total for question 1 = 20 marks

Question	Answer (AO2) 4				Mark
2 (a)	Material A	4 500 x $2.80	$12,600	)	
	Material B	3 000 x $2.30	$ 6,900	)	
	Material C	500 x $9.00	$ 4,500	) **(1)** for	
	Labour	1 800 x $6.50	$11,700	) all 5	
	Overheads		$16,300	)	
			$52,000		
	Expected Scrap Proceeds 800 @ £2.00		($1,600)	**(1)**	
	Expected Net Cost		**$50,400**		
	Expected Output (90% x 8,000 kg)		7,200 kg	**(1)**	
	Expected Unit Cost		**$7.00/ kg**	**(1 of)**	**(4)**

Question	Answer (AO2) 7	Mark
2 (b)	Process Account – Debit side	

	Qty	$	
Material A	4 500	12 600	
Material B	3 000	6 900	**(1 of**
Material C	500	4 500	for
Labour	-	11 700	all 5)
Overheads	-	16 300	
	8 000	**52 000**	

Process Account – Credit side

	Qty	Cost	£	
Normal Loss	800(1)	2.00	1 600	**(1)**
Abnormal Loss	250(1)	**7.00** * (1of)	1 750	**(1 of)**
Finished Goods	6 950	**7.00***	48 650	**(1 of)**
	8 000	-	**52 000**	

Value of Good Output = 6 950 kg x £7.00 (of) = £48 650 (of)

Abnormal Loss = 250 kg x £7.00 (of) = £1,750 (of) **(7)**

Question	Answer (AO2) 3	Mark
2 (c)(i)	The equivalent units produced = 40% x 2,000 = **800 units (1)**	
	Total number of units produced was 3,000 + 800 = **3,800 units (1 of)**	
2 (c)(ii)	The unit cost of material was $13,870 / 3,800 = **$3.65 / unit (1 of)**	**(3)**

Question	Answer (AO1) 2 (AO3) 2	Mark
2 (d)(i) **2 (d)(ii)**	A **By-Product** is an incidental or secondary product made in the manufacture of another product **(1)** with minimal sales value. **(1)** **Maximum 2 marks** **Joint products** are multiple products generated by a single production process up to a certain point **(1)**. Costs up to that point are indistinguishable and have to be apportioned/allocated to each product **(1).** They are main products with a significant sales value **(1)** **Maximum 2 marks**	**(4)**

Total for question 2 = 18 marks

Question	Answer (AO2) 12	Mark
3 (a)		**(12)**

	Month 1	Month 2	Month 3	
Receipts:				
Cash Sales	4 500	4 800	4 650	**(1)**
Credit Sales	0	10 500	11 200	**(1)**
Total Receipts	**4 500**	**15 300**	**15 850**	**(1)**
Payments:				
Purchases	0	6 000	6 400	**(1)**
Wages	1 250	1 550	1 570	**(1)**
Electricity	0	0	330	**(1)**
Rent	600	600	600	**)**
Other Admin	420	420	420	**) (1) for**
Salary	1 500	1 500	1 500	**) all 3**
Fixtures & Fittings	6 000	0	0	**) (1) for**
Delivery Van	0	7 500	0	**) both**
Total Payments	**9 770**	**17 570**	**10 820**	**(1 of)**
Net cash flow	**(5 270)**	**(2 270)**	**5 030**	**(1 of)**
Op Balance	**4 000**	(1 270)	(3 540)	**(1)**
Closing Balance	**(1 270)**	**(3 540)**	**1490**	**(1 of)**

Opening Balance: Month 1 Opening Balance (1)

Receipts: (1) for Cash Sales, (1) for credit sales, (1 of for correctly adding cash and credit)

Total Payments: Month 1, 2 and 3 correct additions (1 of)

Net cash flow: (1 of) if total receipts – total payments

Closing Balances: Month 1, 2 and 3 (1 of)
if Opening Balance + Receipts – Payments = Closing Balance
or Opening Balance +/- Surplus/Deficit = Closing Balance

Question	Answer (A03) 2 (AO4) 2 (AO5) 2	Mark
3 (b)	Advantages may include: $10,500 more received in July **(1)** and overdraft will be avoided **(1)** $8,750 more will be received during the 6 months **(1)** and the overdraft will be avoided **(1)** Cash sales will avoid overdraft **(1)** and avoid bank charges/interest **(1)** Not giving credit will avoid bad debts **(1)** and so improve cash flow / profit **(1)** Bell will spend less time chasing payment **(1)** and will be able to concentrate on building up his business **(1)** **Maximum 3 marks for advantages** Disadvantages may include: Customers may be getting credit elsewhere **(1)** and may not want to buy from Bell **(1)** Customers may not want to pay cash immediately **(1)** and sales may be lost **(1)** Customers may demand discounts / lower prices **(1)** and profit will be reduced **(1)** **Maximum 3 marks for disadvantages** **Award 2 marks for conclusion**	**(6)**

Question	Answer (AO1) 2 (AO3) 2	Mark
3 (c)	Answers may include: It will avoid the need to take out a short-term bank loan/organise an overdraft facility **(1)** which will incur interest **(1).** Supplier confidence might be undermined if the business is unable to pay for its purchases when requested **(1)** subsequently they may refuse to supply products/further credit **(1).** Regular payments for utilities etc avoid the risk of eg electricity being cut off **(1)** which would bring production to a halt **(1)** Cash may need to be available on a weekly basis to pay wages **(1)** otherwise staff will leave and production will stop **(1).** **1 mark for each point (maximum 2) and 1 mark for explaining the result of the action (maximum 2)**	**(4)**

Total for question 3 = 22 marks

Question	Answer (AO2) 9 (AO3) 1	Mark
4 (a)		(10)

Overhead Distribution Table							
Expense	Total	(1) Basis	Departments				
			Manuf'g	Packing	Stores	Admin	
R & R	8 500	Area	2 550	1 700	3 825	425	**(1)**
Mach Dep'n	13 200	M Value	8 800	4 125	275	-	**(1)**
St Salary	2 500	Direct	-	-	2 500	-	**(1)**
Ad Salary	4 120	Direct	-	-	-	4 120	**(1)**
HL&P	6 100	Consump	2 745	1 525	1 220	610	**(1)**
Other O/H	11 180	Direct	3 925	2 840	1 980	2 435	**(1)**
	45 600		**18 020**	**10 190**	**9 800**	**7 590**	**(1 of)**
Admin Overheads		50/50	3 795	3 795	-	(7 590)	**(1 of)**
Stores Overheads		Requis	5 880	3 920	(9 800)	-	**(1 of)**
Revised Total			**27 695**	**17 905**	0	0	**(1 of)**

Totals – award (1 of) if all 6 expenses are attempted

Question	Answer (AO2) 2	Mark
4 (b)	Manufacturing OAR = **$27 695** / 1 200 MH = **$23.08 / MH (1of)** Packing OAR = **$17 905** / 1 440 DLH = **$12.43 / DLH (1of) [Not m/c hours]**	**(2)**

Question	Answer (AO2) 4	Mark
4 (c)		**(4)**

Manufacturing Department		Packing Department		
Overheads Absorbed		Overheads Absorbed		
1 130 x **$23.08**	**$26 080**	1 380 x **£12.43**	**$17 153**	**(2 x 1 of)**
Overheads Incurred	$27 360		$21 240	
Over-/Under	**$1 280 Under**		**$4 087 Under**	**(2 x 1 of)**

The over/under must be appropriate - otherwise 1 mark for both.

Question	Answer (AO3) 3 (AO4) 3	Mark
4 (d)	**Award 1 mark for analysis (max 3); 1 mark for justification (max 3)** Answers may include: The company has fallen $5 367 short **(1 of)** of covering its costs / passing all of its overheads onto the customer **(1)** Overall overheads were $3 000 more than expected **(1)** and this indicates poor control of costs **(1)** Both departments worked less hours and probably produced less output than budgeted **(1)** which will reduce contribution and therefore profit **(1)** If a cost-plus approach is used, the selling price will be low **(1)** which might have attracted more customers **(1)** than had the right price been charged The real cost of making the product was greater than expected **(1 of)** and so the company's profit will be reduced **(1 of)** **Candidates may have calculated an over-absorption of overheads and marks should be awarded for appropriate points raised**	**(6)**

Total for question 4 = 22 marks

Question	Answer (AO1) 3	Mark
5(a)	Answers may include: **Ordering cost** – telephone, mail, transportation costs, person placing the order's time **(maximum 1)** **Holding costs** – warehouse rental, heating and lighting, stores salaries, security, waste, theft **(maximum 2 x 1)**	**(3)**

Question	Answer (AO2) 2	Mark
5 (b)	Orders required (2 000 x 12) / 3 000 = **8 orders (1)** 8 x $250 = **$2 000 (1 of)**	**(2)**

Question	Answer (AO2) 2	Mark
5 (c)	Average Inventory = 1 000 + (3 000 / 2) = **2 500 kg (1)** 2 500 x $1.20 = **$3 000 (1)**	**(2)**

Question	Answer (AO2) 5 (AO4) 1				Mark
5(d)(i) (ii)	Costs	3 000 units		8 000 units	
	Purchasing	$168 000	**(1)**	$159 600	95% x 24 000 x £7.00 **(1of)**
	Ordering	$2 000	5b	$750	24 000 / 8 000 = **3** 3 x £250 = £750 **(1 of)**
	Holding	$3 000	5c	$6 000	1,000 + (8 000 / 2) = **5 000** 5 000 x £1.20 = £6 000 **(1 of)**
	Total	$173 000	**(1of)** **[2]**	$166 350	**(1 of)** **[4]**
					(6)

Question	Answer (AO3) 2 (AO4) 1 (AO5) 2	Mark
5 (e)	Answers might include: Money saved from bigger orders can be used elsewhere **(1)** Life-span of product **(1)** – if the materials perish and are wasted then this will cost the company money **(1)** Physical space **(1)** – if there is nowhere to store the material safely then it might be stolen and this will cost the company money **(1)** Financial costs **(1)** - if the company does not have credit facilities or enough cash then it might be paying bank charges or interest **(1)** **Conclusion** The company will save money **(1)** if it increases the size of its orders to 8 000 units provided that other additional costs are less than $6 650 **(1)** **Maximum of 2 points (1 for basic point and 1 for development on each)**	**(5)**

Total for question 5 = 18 marks

TOTAL FOR PAPER = 100 MARKS