Mark Scheme

November 2017
Results

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

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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 candidate arrived at their values has been provided (their workings).
- If candidate's 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 candidate must provide workings.

Question number	Answer (AO2) 12	Mark
1(a)		

	January ($)	February ($)	March ($)	
Receipts:				
1st Month Sales	10 400	11 200	11 600	**(1)**
2nd Month Sales	13 680	14 820	15 960	**(1)**
Total Receipts	**24 080**	**26 020**	**27 560**	
Payments:				
Purchases	11 600	12 100	12 500	**(1)**
Wages & salaries	2 450	2 450	2 450	**(1)**
Drawings	1 800	1 800	1 800	
Heat, light & power		960		**(1)**
Other costs	3 320	3 360	3 280	**(1)**
Bank charges & int		200 **(1of)**	97 **(1of)**	
Delivery Van	16 400			**(1)**
Total Payments	**35 570**	**20 870**	**20 127**	**(1of)**
Surplus/(Deficit)	**(11 490)**	**5 150**	**7 433**	**(1of)**
Opening Balance	**1 500**	**(9 990)**	**(4 840)**	
Closing Balance	**(9 990)**	**(4 840)**	**2 593**	**(1of)**

Receipts: **(1)** for 1 month sales, **(1)** for 2 month sales

Total Payments: January, February and March for correct additions but must not include depreciation or irrecoverable debts **(1of)**

Surplus/Deficit: **(1of)** if total receipts – total payments

Closing Balances: January, February and March **(1of)**
if Opening Balance + Receipts – Payments = Closing Balance
or Opening Balance +/- Surplus/Deficit = Closing Balance

(12)

Question number	Answer (AO1) 2 (AO3) 2	Mark
1(b)	Award 1 (AO1) mark for each basis point and 1 (AO3) mark for development. Answers may include: • Offering discounts to customers **(1)** – to speed up the payments **(1)** • Overdraft facility **(1)** – this will reduce bank charges / ensure that cheques are not dishonoured **(1)** • Bank loan **(1)** – this will enable Catherine to schedule her payments / will reduce the level of interest paid **(1)** • Buy delivery van using loans or HP **(1)** – this will spread the cost and ensure that Catherine does not go overdrawn **(1)** • Reduce purchases **(1)** - which will reduce the money tied up in inventory **(1)** • Reduce drawings **(1)** • It introduced new capital **(1)**	**(4)**

Total for Question 1 = 16 Marks

Question number	Answer (AO2) 3	Mark
2(a)(i)	Material usage: (93 800 – 87 400) **6 400 (1)** x **2.80 (1)** = **17 920** Favourable **(1of)** Standard quantity = (77 000 / 22 000) x 26 800 = 93 800 kg Standard price = 215 600 / 77 000 = $2.80 The variance must be correctly identified as favourable or adverse to get the final mark.	**(3)**

Question number	Answer (AO2) 2	Mark
2(a)(ii)	Material price: (2.80 – 3.05) **0.25 (1)** x 87 400 = **21 850** Adverse **(1of)** Actual price = 266 570 / 87 400 = **$3.05** The variance must be correctly identified as favourable or adverse to get the final mark.	**(2)**

Question number	Answer (AO2) 3	Mark
2(a)(iii)	Labour efficiency: (21 440 – 23 150) **1 710 (1)** x **8.50 (1)** = **14 535** Adverse **(1of)** Standard quantity = (17 600 / 22 000) x 26 800 = **21 440** hours Standard rate = 149 600 / 17 600 = **$8.50** The variance must be correctly identified as favourable or adverse to get the final mark.	**(3)**

Question number	Answer (AO2) 2	Mark
2(a)(iv)	Labour rate: (8.50 – 9.40) **0.90 (1)** x 23 150 = **20 835** Adverse **(1of)** The variance must be correctly identified as favourable or adverse to get the final mark.	**(2)**

Question number	Answer (AO1) 2 (AO3) 2	Mark
2(b)	Answers may include: **Adverse** material usage variance**:** lower quality of material used **(1)** – this will lead to production problems that cause material wastage **(1)** **Favourable** labour rate**:** less skilled staff used **(1)** – who are prepared to work for a lower wage rate **(1)**	**(4)**

Question number	Answer (AO2) 2	Mark
2(c)		**(2)**

		$	
Materials	(215 600 / 22 000) x 26 800 =	262 640	**(1)**
Labour	(149 600 / 22 000) x 26 800 =	182 240	
Overheads		275 000	
Standard Cost		**719 880**	**(1of)**

Question number	Answer (AO2) 4	Mark
2(d)		**(4)**

	$	**$**	**$**	
Budgeted cost for actual production			**719 880**	**OF from 2(c)**
Variances	**Fav**	**Adv**		
Direct materials usage	17 920			**(1of)** for first 2
Direct materials price		21 850		
Direct labour efficiency		14 535		**(1of)** for next 2
Direct labour rate		20 835		
Fixed overhead expenditure		11 000		
Total variance	**17 920**	**68 220**	**50 300**	**(1of)**
Actual cost of actual production			**770 180**	**(1of)**

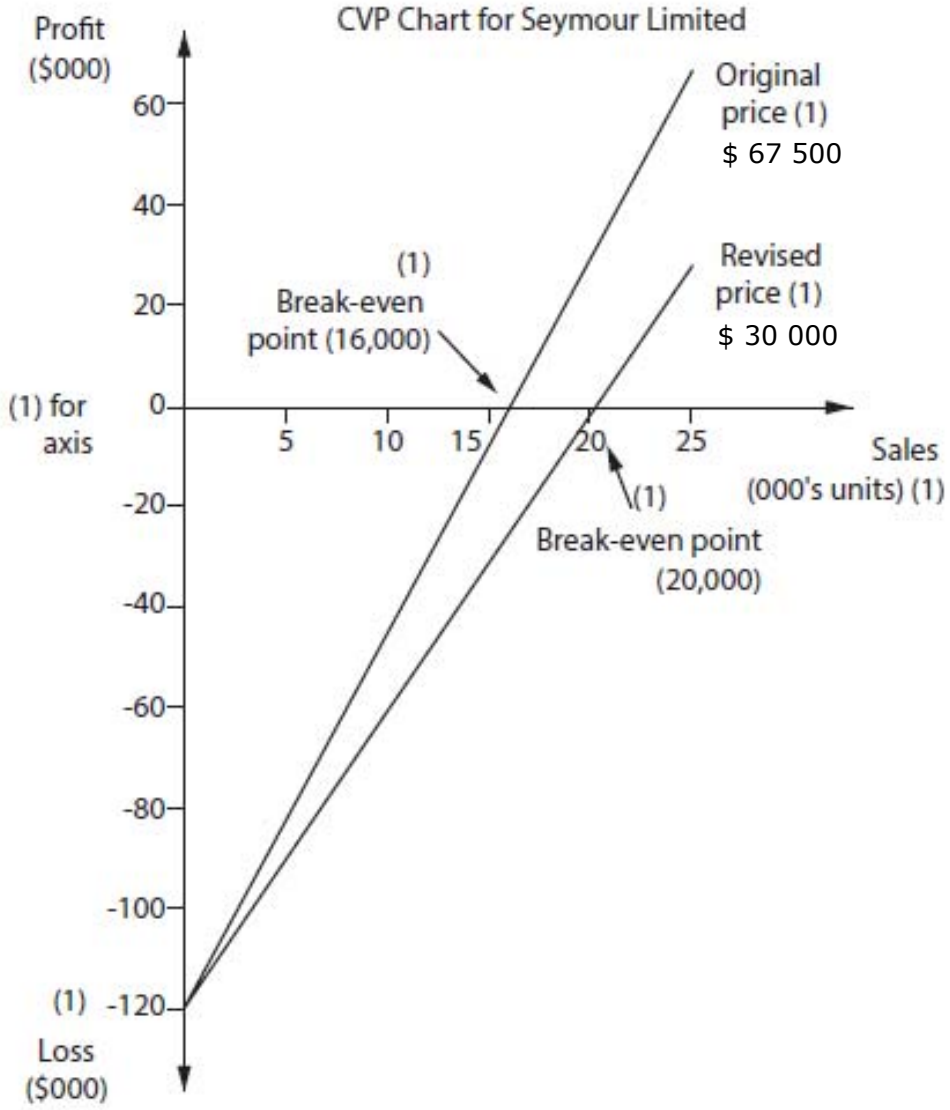
Total for Question 2 = 20 Marks

Question number	Answer (AO2) 3	Mark
3(a)	Contribution = 12.95 - 5.45 = **$7.50 (1)** Break-even point (units) = 120 000 / 7.50 = **16 000 units (1)** Break-even (revenue) = 16 000 x 12.95 = **$207 200 (1)** **Must show units and revenue for the marks.**	**(3)**

Question number	Answer (AO2) 2	Mark
3(b)	Margin of safety (units) = 25 000 - 16 000 = **9 000 units (1)** Margin of safety (%) = $\frac{9\,000}{25\,000}$ x 100 = **36.00% (1)** **Must show units and percentage for the marks.**	**(2)**

Question number	Answer (AO2) 2	Mark
3(c)	Target Profit (units) = $\frac{(120\,000 + 42\,000)}{7.50\ OF}$ **(1)** = **21 600 units (1of)**	**(2)**

Question number	Answer (AO2) 7	Mark
3(d)	Marks should be awarded for the following features on the CVP chart: • Vertical axis correctly labelled and scaled **(1)** • Horizontal Axis correctly labelled and scaled **(1)** • Original price line ($12.95) correctly plotted and labelled **(1)** • New price line ($11.45) correctly plotted and labelled **(1)** • Both price lines start at minus 120 000 **(1)** • Original break-even point identified at 16 000 units **(1)** • New break-even point identified at 20 000 units **(1)**	**(7)**


CVP Chart for Seymour Limited
Profit
($000)
60
40
20
0
-20
-40
-60
-80
-100
-120
(1) for axis
(1) Loss ($000)
5
10
15
20
25
Sales
(000's units) (1)
Original price (1)
$ 67 500
Revised price (1)
$ 30 000
(1)
Break-even point (16,000)
(1)
Break-even point
(20,000)

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Question number	Answer (AO1) 1 (AO3) 1	Mark
3(e)(i)	Award 1 (AO1) mark for each basis point and 1 (AO3) mark for development, max 2 marks. • Differential / incremental cost is the additional cost of producing an additional quantity of output **(1)** and can refer to the cost of producing e.g. an extra 200 units **(1)** whereas marginal cost refers to producing one extra unit. **(1)**	**(2)**

Question number	Answer (AO1) 1 (AO3) 1	Mark
3(e)(ii)	Award 1 (AO1) mark for each basis point and 1 (AO3) mark for development. • Opportunity cost is the cost of undertaking a project / course of action **(1)** in terms of the benefits one could have had when choosing the (next best) option **(1).**	**(2)**

Total for Question 3 = 18 Marks

Question number	Answer (AO2) 10	Mark
4(a)		(10)

	kg	$			kg	$	
Material A	2 500	10 500	**(1)**	Product P	1 800	17 177	**(5)**
Material B	1 600	8 800	both	Product Q	700	8 907	
Labour		7 200	**(1)**	Product R	1 100	17 496	
Overheads		17 600	both	By-Prod S	200	1 600	**(1)**
Disposal		1 080	**(1)**	Norm Loss	300	0	**(1)**
	4 100	45 180			4 100	45 180	

Disposal costs = 300 kg x $3.60 = **$1080**

Credit side:

Net Costs = 45 180 – 1 600 = **43 580 (1)**

Sales proceeds:
Product P = 1 800 x $30 = $54 000
Product Q = 700 x $40 = $28 000
Product R = 1 100 x $50 = $55 000 Total = **$137 000 (1)**

Apportionment of joint-costs:
Product X = (54 000 / 137 000) x $43 580 = **$17 177 (1of)**
Product Y = (28 000 / 137 000) x $43 580 = **$ 8 907 (1of)**
Product Z = (55 000 / 137 000) x $43 580 = **$17 496 (1of)**

Question number	Answer (AO1) 1 (AO3) 1	Mark
4(b)(i)	1 (AO1) mark for basic point and 1 (AO3) mark for development Joint-products are two or more/main product**s** that are produced by a single manufacturing process that share common costs **(1)** and are separately unidentifiable until they reach a particular split-off point **(1)**.	**(2)**

Question number	Answer (AO1) 1 (AO3) 1	Mark
4(b)(ii)	1 (AO1) mark for basic point and 1 (AO3) mark for development By-products are secondary products arising from a manufacturing process whose main purpose is to produce a main product **(1)** – they usually have minor value when compared to the main product / they are not usually apportioned a share of any joint costs **(1)**.	**(2)**

Question number	Answer (AO3) 2	Mark
4(c)	Answers may include: • It is fair / application of the prudence concept **(1)** that the products making a greater contribution to Howard's profitability should bear a higher share of the costs **(1).** • The amount of costs incurred in making a kg of the more expensive products might be greater than that incurred in making a kg of the cheaper products **(1)** and the amount of costs apportioned should reflect this **(1)**.	**(2)**

Question number	Answer (AO2) 6	Mark
4(d)	Equivalent units for materials = 5 000 + (80% x 3 500) = **7 800 units (1)** Equivalent units for labour/oheads = 5 000 + (50% x 3 500) = **6 750 units (1)** Material cost per unit = $34 710 / 7 800 = **$4.45 (1of)** Labour / overheads cost per unit = $21 600 / 6 750 = **$3.20 (1of)** **Cost of completed output** = 5 000 x $7.65 = **$38 250 (1of)** **Cost of work-in-progress** = (34 710 + 21 600) – 38 250 = **$18 060 (1)** Alternative approach: materials = 2 800 x $4.45 = $12 460 labour / overheads = 1 750 x $3.20 = $ 5 060 $18 060	**(6)**

Total for Question 4 = 22 Marks

Question number	Answer (AO2) (6)	Mark
5(a)	**Selling price** = $910 000 / 50 000 = **$18.20 (1)** **Marginal cost** = **$6.70 (1)** + **$2.00 (1)** + **$3.50 (1)** = **$12.20 (1of)** **Absorption cost** = $970 000 / 50 000 = **$19.40 (1)** Material costs = $335 000 / 50 000 = **$6.70** Labour cost (variable) = ($240 000 - $140 000) / 50 000 = **$2.00** Overhead (variable) = ($395 000 – $220 000) / 50 000 = **$3.50**	**(6)**

Question number	Answer (AO2) 3	Mark
5(b)	**Contribution** = $16.20 - $12.20 = **$4.00 (1of)** **Current loss** = 60 000 + (9 000 x 4.00) 36 000 **(1)** = revised loss of $24 000 **(1of)**	**(3)**

Question number	Answer (AO4) 4	Mark
5(c) (i)	Answers my include: **Reasons to accept the offer:** • The marginal cost of production is less than the selling price per unit **(1)** so marginal costing would advise accept the offer / the loss is reduced by $36 000 per quarter **(1)** • Parr will be selling the product in a new overseas market **(1)** which may lead to further contracts / expansion **(1)** • Expansion of production may enable Parr to gain economies of scale **(1)** for example, discounts from buying materials in bulk **(1)**	**(4)**

Question number	Answer (AO4) 4	Mark
5(c) (ii)	Answers my include: **Reasons why offer should not be accepted:** • Existing customers may not be happy if they find out that the new customer is paying a lower price **(1)** and may seek to renegotiate / cease buying from Parr **(1)** • The customer may use a different currency **(1)** and a change in the exchange rate may cause problems **(1)** • The costs of transportation might be significant **(1)** and this may remove the contribution gained on the extra units **(1)** • Expanded production might require Parr to hire more staff / invest in new machinery / increase capacity **(1)** and this might be expensive / difficult to achieve **(1)** • There may be legal / technical requirements in the customer's country **(1)** that mean Parr has to make alterations to the product **(1)**	**(4)**

Question number	Answer (AO5) 2	Mark
5(d) (i)	Parr should continue making and selling Product P **(1)** as the selling price is greater than the variable cost **(1)** **OR** If they stopped selling the product the loss would increase from $60 000 per month to $360 000 / contribution of $300 000 would be lost **(1)** (Revenue = nil. Fixed Costs are 140 000 + 220 000 = $360 000 Loss = $360 000)	**(2)**

Question number	Answer (AO5) 2	Mark
5(d) (ii)	In the long term Parr should stop making and selling Product P **(1)** as the fixed cost can be removed and the loss would reduce from $60 000 per month to nil **(1).**	**(2)**

Question number	Answer (AO1) 1 (AO3) 2	Mark
5(e)	1 (AO1) mark for basic point and 1 (AO3) mark for development Answers may include: • **In the long term** costs like rent can be increased or reduced **(1)** by moving into a different sized factory / negotiating with the landlord **(1)** or removed altogether at the end of a rental agreement **(1).**	**(3)**

Total for Question 5 = 24 Marks

TOTAL FOR PAPER = 100 MARKS