Pearson LCCI

Certificate in Cost and Management Accounting (VRQ)
Level 3

Monday 20 November 2017
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.
- You are advised to show your workings.
- Check your answers if you have time at the end.

Turn over

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

1 Catherine Aragon is planning the cash flow of her business for the three months January to March 2018 and the following information is available.

- The business will have an opening balance of $1 500 on 1 January 2018.
- Sales and purchases will be as follows:

	November	December	January	February	March
	$	$	$	$	$
Sales	24 000	26 000	28 000	29 000	27 000
Purchases	11 000	11 600	12 100	12 500	11 900

- 40% of the sales income will be received in the month following the sale and 57% will be received two months after the sale. The remainder will be written off as an irrecoverable debt.
- Purchases will be on one month's credit.
- Wages and salaries will be $2 450 per month, payable in the month in which they are incurred.
- Drawings of $1 800 will be taken each month.
- Heat, light and power will be $320 per month and paid quarterly in February, May, August and November.
- Other costs will be $2 200 plus 4% of sales per month, payable in the month they are incurred.
- Bank interest of 2% per month will be charged on the closing bank balance of the previous month if it is an overdraft.
- A delivery van costing $16 400 will be bought and paid for in January.
- The business has other non-current assets that had cost $150 000 in September 2014, which are expected to have a residual value of $15 000 at the end of their 5-year useful life.

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(a) Prepare the Cash Budget for **each** of the three months January to March 2018. The budget should be in columnar format and all calculations made to the nearest $.

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(b) Explain **two** ways that Catherine Aragon could deal with a short-term cash **deficit**, giving the benefits of each.

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(Total for Question 1 = 16 marks)

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2 Boleyn Ltd produces one product and had the following information relating to October 2017.

	Budget		Actual	
Production (units)	**22 000**		**26 800**	
Materials	77 000 kg	$215 600	87 400 kg	$266 570
Direct labour	17 600 hours	$149 600	23 150 hours	$217 610
Overheads		$275 000		?
Total cost		**$640 200**		?

Material and labour are to be regarded as variable costs.

Overheads should be regarded as fixed.

The following variance has already been calculated:

Fixed overhead expenditure $11 000 Adverse

(a) Calculate the following variances:

(i) material usage

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(ii) material price

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(iii) labour efficiency

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(iv) labour rate.

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(b) Explain **one** possible reason for:

(i) an adverse material usage variance

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(ii) a favourable labour rate variance.

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(c) Calculate the budgeted cost of production for the 26 800 units produced in October 2017.

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(d) Prepare the Cost Reconciliation Statement using the variances for October 2017.

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COST RECONCILIATION STATEMENT			
	$	**$**	**$**
Budgeted cost for actual production			
Variances	**Favourable**	**Adverse**	
Direct materials usage			
Direct materials price			
Direct labour efficiency			
Direct labour rate			
Fixed overhead expenditure			
Total variance			
Actual cost of actual production			

(Total for Question 2 = 20 marks)

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3 Seymour Ltd manufactures a product that it sells for $12.95 per unit. The variable costs of production are $5.45 per unit and the fixed costs for this product are $120 000 per month.

Monthly output and sales will be 25 000 units and the directors require a minimum profit of $42 000 per month.

(a) Calculate the break-even point in number of units and in $.

(3)

(b) Calculate the margin of safety in number of units and as a percentage of sales.

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(c) Calculate the output required to make a profit of $42 000 per month.

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Due to increased competition, Seymour Ltd believes that the selling price will need to be reduced by $1.50 per unit.

(d) Prepare a **profit-volume (PV) chart**, for output from 0 to 25 000 units, that shows the following:

- axes correctly labelled and scaled
- profit volume line at the original price plotted and labelled
- profit volume line at the new price plotted and labelled
- original break-even point identified
- new break-even point identified.

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(e) Explain what is meant by the following terms:

(i) differential/incremental cost

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(ii) opportunity cost.

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(Total for Question 3 = 18 marks)

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4 Howard manufactures three products P, Q and R using a process-costing system. A by-product S is also produced by this process.

The inputs used in production in October 2017 were as follows:

Material A	2 500 kg at $4.20 per kg
Material B	1 600 kg at $5.50 per kg
Direct labour	800 hours at $9.00 per hour
Overheads are absorbed at a rate of $22.00 per labour hour.	

The outputs arising from production in October 2017 were as follows:

	Quantity kg	**Selling price per kg**
Product P	1 800	$30
Product Q	700	$40
Product R	1 100	$50
Product S	200	$8

All waste is a normal loss and has no value. However, it does need to be disposed of at a cost of $3.60 per kg.

Joint costs are apportioned between the main products on the basis of sales value.

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(a) Prepare the Process Account for October 2017.

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(b) Explain what is meant by:

(i) joint products

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(ii) by-products.

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(c) Explain **one** reason why Howard's method of apportioning joint costs on the basis of sales value might be better than using kilogrammes (kg) of output.

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Howard has just started to manufacture Product T during October 2017, using a **separate** process. The results for October 2017 were as follows:

Completed output	5 000 units
Work-in-progress	3 500 units

The work-in-progress was assessed as being 80% complete in terms of material inputs and 50% complete in terms of labour and overheads.

The costs for October 2017 were $34 710 for materials and $21 600 for labour and overheads.

(d) Calculate the cost of:

- completed output for October 2017
- work-in-progress at the end of October 2017.

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(Total for Question 4 = 22 marks)

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5 Parr Ltd had reported the following results for Product P for October 2017.

	$	$
Sales		910 000
Material costs	(335 000)	
Labour costs	(240 000)	
Overhead costs	(395 000)	
Total costs		(970 000)
Loss		**(60 000)**

The following information is available for October 2017.

- 50 000 units were made and sold
- Material costs were variable
- Labour costs contained fixed costs of $140 000
- Overhead costs contained fixed costs of $220 000
- All costs are expected to remain unchanged for the foreseeable future.

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(a) Calculate the following for October 2017:

- selling price **per unit**
- cost **per unit** using marginal costing
- cost **per unit** using absorption costing.

(6)

The company has been approached by a new overseas customer who is willing to purchase 9 000 units per month at a price of $16.20 per unit.

This would be in addition to the 50 000 units currently being produced and sold.

(b) Calculate the **total** profit or loss per month that Parr Ltd would make if the offer from the new overseas customer to buy 9 000 units per month was accepted.

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(c) Advise Parr Ltd of the following:

(i) **two** reasons why the offer from the new overseas customer **should** be accepted

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(ii) **two** reasons why the offer from the new overseas customer should **not** be accepted.

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(d) Evaluate whether Parr Ltd should continue producing and selling the product in the:

(i) short term

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(ii) long term.

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(e) Explain why rent might not be regarded as a fixed cost.

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(Total for Question 5 = 24 marks)

TOTAL FOR PAPER = 100 MARKS

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