## Mark Scheme

December 2017 Results

Pearson LCCI

Certificate in 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 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 (6) | Mar k |
| :---: | :---: | :---: |
| 1 (b) | Marks will be awarded for an (OF) order of priority provided there is evidence of a commitment to supply the contracted units | (6) |


| Question Number | Answer AO2 (4) | Mark |
| :---: | :---: | :---: |
| 1 (c) | Award 10F mark for first two products. Award 10F marks for 3rd and 4th products <br> Schedule must be related to what the student has produced in 1b | (4) |


| Question <br> Number | Answer AO1 (2) AO3 (2) | Mark |
| :--- | :--- | :--- |
| $\mathbf{1 ( d )}$ | Award 1 mark (AO1) for point made and 1 mark <br> (AO3) for development <br> 4 max <br> The principal budget factor provides the starting point for <br> the production of all the other budgets. (1) The principal <br> budget factor will determine or limit the budget or activity <br> levels of all the other factors. (1) |  |
| The supply or demand of a factor determines if it is the <br> principal budget factor. (1) If labour or material is in short <br> supply, it will be the principal budget factor which restricts <br> the activity of the organisation. (1) <br> Unless the company can overcome any constraints it will <br> not be able to expand or achieve its target outcomes. (1) <br> This could limit the amount of profit/contribution made. (1) <br> Accept any other valid answer | (4) |  |

## Total for Question 1 = 20 marks

| Question Number | Answer AO2 (16) | Mark |
| :---: | :---: | :---: |
| 2(a) <br> Notes | Profit as per financial accounts $\begin{equation*} 406650 \tag{1} \end{equation*}$ |  |
|  | Inventory adjustments |  |
| 2070=(2) | Raw materials - opening [85 380-89 250] 3870 (1) |  |
|  | Raw materials - closing [71 400-73 200] (1 800) (1) |  |
| (7200) $=(2)$ | WIP - opening [56 100-54 000] (2 100) (1) |  |
|  | WIP - closing [58 900-64 000] (5 100) (1) |  |
| $7900=(2)$ | Finished goods - opening [66 250-72 950] 6700 (1) |  |
|  | Finished goods - closing [84 300-83100] 1200 (1) |  |
|  | $\underline{2770}$ |  |
|  | 409420 |  |
|  | Add |  |
| $1490=(2)$ | Discount allowed 9650 (1) |  |
|  | Interest charges 6500 (1) |  |
|  | 16150 425570 |  |
| $\begin{aligned} & (48450) \\ & 45325=(\mathbf{1}) \\ & \text { (see above) } \end{aligned}$ | Less |  |
|  | Depreciation (48450-45 325) 3125 (1) |  |
|  | Discounts received 8160 (1) |  |
|  | Sundry Investment Income 7250 (1) |  |
|  | Over absorbed overheads 9300 (1) |  |
|  | Dividends Received 8250 (1) |  |
|  | Notional rent charge $\underline{7650}$ (1) |  |
|  | (43735) |  |
|  | Profit as per cost accounts 381 835/(10F) |  |
|  | Award 2 marks for correct subtraction step without working/simple single step arithmetic totals shown without calculation. See left margin for guidance. | (16) |


| Question <br> Number | Answer AO1 (3) AO3 (3) | Mark |
| :--- | :--- | :--- |
| 2 (b) | Award 1 mark (AO1) for point made and 1 mark <br> (AO3) for development |  |
|  | A non-integrated system has two, distinct, sets of accounts <br> - cost accounts and financial accounts (1), which need to <br> be kept in agreement by a reconciliation statement or the <br> use of control accounts (1). | Both sets of accounts may have different valuations for <br> inventory and/or different methods to calculate <br> depreciation charges (1) which will give different profits for <br> the cost accounts and the financial accounts (1) |
| There are items, such as discounts allowed or discounts <br> received (1), which are only recorded in the financial <br> accounts (1) | There are items, such as notional rent (1), which are only <br> recorded in the cost accounts (1) | (6) |

Total for Question 2 = 22 marks


| Question Number | Answer AO2 (5) | Mark |
| :---: | :---: | :---: |
| 3(a)(ii) | Internal rate of return (IRR) $\begin{aligned} & \text { IRR }=12 \%+\{3 \% \times[21.99(\mathbf{1}) \div(21.99+39.81)(\mathbf{1})]\}= \\ & \mathbf{1 3 . 0 7 \%}(\mathbf{1}) \text { of } \end{aligned}$ | (5) |


| Question <br> Number | Answer AO5(3) | Mark |
| :--- | :--- | :--- |
| $\mathbf{3 ( b )}$ | The investment should not be undertaken (1) by the <br> company since it generates a negative NPV of $\$ 39$ <br> 810 (1) and earns an IRR of 13.07\% which is lower <br> than the 15\% cost of capital (1). |  |


| Question <br> Number | Answer AO1(3) AO3(3) | Mark |
| :--- | :--- | :--- |
| $\mathbf{3 ( c )}$ | The NPV method recognises that money has a time value <br> (1). It takes the present value of cash inflows minus the <br> present value of cash outflows, to arrive at a net present <br> value of a capital project. (1) |  |
| The IRR is the cost of capital rate at which the present <br> value of the cash flow matches the initial investment (1) <br> The IRR requires meeting a minimum return rate in order <br> to go ahead with the project (1). | The NPV method selects projects that have a positive net <br> cash flow (1), whilst the IRR method chooses projects <br> that have a rate of return which is higher than the cost of <br> capital (1) | (6) |

## Total for Question 3 = 18 marks

| Questio <br> n <br> Number | Answer AO2 (10) | Mark |
| :---: | :---: | :---: |
| 4(a) | Workings: $\begin{aligned} & \text { Total production costs }=\$ 950000+\$ 520000+\$ 690000 \\ & =\$ 2 \mathbf{1 6 0} 000 \text { (1) } \end{aligned}$  | (10) |


| Questio <br> $n$ <br> Number | Answer AO4(3) AO5(3) | Mark |
| :--- | :--- | :--- |
| 4(b) | Award 1 mark (AO4) for point made and 1 mark (AO5) <br> for evaluation <br> Inventory: <br> The aim is to hold sufficient inventory to meet the immediate <br> needs of the customers (1), without holding excessive <br> amounts of inventory which will tie up working capital and <br> involve the company in unnecessary holding costs (1) |  |
|  | Trade receivables <br> The company needs to offer attractive settlement terms to <br> encourage customers to purchase their products (1). <br> However, cash must be collected in a timely fashion, in order <br> to pay existing creditors and to enable the company to <br> purchase more inventory (1) | Trade payables <br> The company needs to get the best possible terms, discounts <br> and repayment period (1), whilst continuing to ensure that <br> the supplier is still willing to deal with their requirements |
| Accept any other valid answer |  |  |

## Total for Question 4 = 16 marks



| Question <br> Number | Answer AO4(5) AO5(1) | Mark |
| :--- | :--- | :--- |
| $\mathbf{5 b}$ | Award up to 5 marks for analysis points - maximum of <br> marks for arguing one side. Award 1 mark for conclusio <br> Max $\mathbf{6}$ marks <br> Answers may include: |  |
|  | In favour of ABC costing <br> With ABC costs are allocated on a discreet usage basis. Produc <br> that <br> use more of an activity are charged a higher proportion of the <br> overall <br> cost (1) e.g. Product One has the highest number of productic <br> runs <br> per unit and should therefore be allocated the greatest <br> proportion of <br> set- up costs per unit. (1) |  |
|  | Products made in smaller batches (i.e. Products Two and <br> Three) cause an increase in costs (1) and should <br> therefore be charged more (pro rata) using ABC than <br> those made in larger batches. (1) | Using absorption costing, the overheads for Products One, |
| Two and Three are \$94.50, \$75.60 and \$56.70. Using |  |  |
| ABC, the overhead costs are \$74.30, \$76.26 and \$89.49. <br> (1) We can see that Product One would benefit from a <br> more realistic cost, at the expense of Product Three, which <br> would incur a greater proportion of the overheads (1) | Activity- based costing builds up a more realistic allocation <br> of costs (1) an advantage of which could be, e.g., a more <br> accurate selling price can be calculated for specific <br> products. (1) | Not all costs can be related to, e.g. labour activity/machine <br> hours.(1) |
| Against ABC costing <br> ABC is expensive and time-consuming to introduce (1) <br> Possibly difficult to identify appropriate cost drivers (1) |  |  |
| Conclusion <br> It would be appropriate for the company to use ABC as cost <br> allocation is more accurate. (1) |  |  |

## Total for Question 5 = 22 marks

